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Data for the EU Member States and Norway

2009 edition

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Additional information

The National Tax Lists for almost all EU countries, showing tax revenues for all major taxes, has now been published online, replacing and augmenting the List of Taxes contained in previous editions of this report (see the new NTL at: **http://ec.europa.eu/taxtrends**). Readers interested in taxation may also find detailed information on the legal form and revenue of the taxes currently in force in the EU Member States in the 'Taxes in Europe' database, available free of charge at: **http://ec.europa.eu/tedb**.

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TAXATION TRENDS IN THE EUROPEAN UNION
2009 EDITION

Main results

Introduction

This year's edition of the *Taxation trends in the European Union* appears at a time of upheaval. The effects of the global economic and financial crisis have hit the EU with increasing force from the second half of 2008. Given that the last year for which detailed data are available is 2007, this year's report cannot yet analyse the consequences of the recession on tax revenues. Nevertheless, the report takes stock of the tax policy measures taken by EU governments in response to the crisis up to spring 2009. These measures are described in detail in the Country Chapters; in addition, an overview is annexed as a Box at the end of this section.

The EU is a high tax area — on average

The European Union is, taken as a whole, a high tax area. In 2007, the overall tax ratio, i.e. the sum of taxes and social security contributions in the 27 Member States (EU-27) amounted to 39.8 % of GDP (in the weighted average); this value is about 12 percentage points above those recorded in the United States and Japan. The EU tax-to-GDP ratio is high not only compared with these two countries but in general; amongst the major non-European OECD members, only New Zealand has a ratio that exceeds 35 per cent of GDP.

The high EU overall tax ratio is not new, dating back essentially to the last third of the 20th century. In those years, the role of the public sector became more extensive, leading to a strong upward trend in the tax ratio in the 1970s, and to a lesser extent also in the 1980s and early 1990s. In the later 1990s, first the Maastricht Treaty and then the Stability and Growth Pact encouraged EU Member States to adopt a series of fiscal consolidation packages. In some Member States, the consolidation process relied primarily on restricting or scaling back primary public expenditures, in others the focus was rather on increasing taxes (in some cases temporarily). At the end of that decade, a number of countries took advantage of buoyant tax revenues to reduce the tax burden, through cuts in the personal income tax, social contributions, but also in the corporate income tax.

The overall tax burden decreased from 2000, but usually only for a couple of years. Efforts to reduce taxes permanently petered out gradually; reductions in tax ratios, fairly aggressive in 2001, lost importance in subsequent years and mostly stopped altogether in 2005. Cyclical factors contributed to this development; growth slowed in the years immediately after 2000, reducing tax revenue, whereas from 2004 onwards, growth in the EU accelerated again. In addition, the need, in several countries, to reduce the general government deficit also made it more difficult to cut taxes. The high general average by no means implies that every EU Member State displays a high tax ratio; on the contrary, ten Member States display ratios below the 35 % mark. On the whole, the differences in taxation levels across the Union are quite marked; the overall tax ratio ranges over almost twenty points of GDP, from 29.4 % in Romania to 48.7 % in Denmark. These differences do not only reflect social policy choices like public or private provision of services such as old age pensions and health insurance, but also technical factors: some Member States provide social or economic assistance via tax reductions rather than direct government spending, while social transfers are exempted from taxes and social contributions in some Member States but not in others. It should also be mentioned that the GDP value that constitutes the denominator of the overall tax ratio includes estimates of production by the informal sector (the 'grey' and 'black' economy); so that a low overall tax ratio may reflect not only low taxes, but also high tax evasion. As a general rule, tax-to-GDP ratios tend to be significantly higher in the old EU-15 Member States (i.e. the 15 Member States that joined the Union before 2004) than in the 12 new members: the first seven positions in terms of overall tax ratio are indeed occupied by old Member States. There are exceptions, however; for example, Ireland's and Greece's tax ratios are amongst the lowest in the EU. The euro area (EA-16) shows a slightly higher overall tax ratio than the EU-27, which is not surprising given that it is mostly composed of old Member States.

Compared with the 2000 base year, however, there has been a perceptible trend towards convergence: the ratio between the standard deviation and the mean of the overall tax ratios has been declining for since 2001 and the value for 2007 is the lowest on record; also the gap between the highest and the lowest overall tax ratio, though still elevated, hit its minimum in 2007 at 19.3 %.

Overall tax ratios rose markedly in 2007

Compared with the previous year, in 2007 the overall tax ratio increased by a strong 0.5 percentage points in the arithmetic average. This is the third consecutive increase. In many countries, the increase of the last two years has been strong enough to push the ratio to above its 1999 peak, although earlier reductions in the tax level in some large economies offset this effect in the GDP-weighted average, which remains below 1999 levels.

The year 2007, like 2006, was characterised by a satisfactory growth level (in both years, GDP expanded by around 3 %), boosting tax revenue. As in the previous year, the 2007 increase in the tax ratio was not limited to a narrow majority of countries but was quite broad: only in nine Member States out of 27 did the tax ratio decline. The strongest declines took place in Denmark and Ireland, whereas the most sizeable increases in the tax ratio were recorded in Cyprus and Hungary. The euro area followed a similar trend as the EU as a whole.

Overall, despite a trend towards lower tax rates, particularly in the corporate income tax, the successive increases in the tax-to-GDP ratio recorded in the years after 2004 suggest that, despite the rhetoric, in the majority of cases there is a limited appetite for a radical reduction in the overall burden of taxes and social contributions. Indeed, the most aggressive tax cuts took place in the Central and Eastern European new Member States in the 1990s, when the need to restructure these economies was particularly stringent; in the old Member States, the tax burden was not reduced significantly.

As for the development of the tax ratio after 2007, the autumn 2008 EU Commission forecasts project the EU-27 general government revenue as a percentage of GDP, a different but related measure, to keep declining until 2010 as a result of the global recession, with the ratio dropping most significantly in 2008, by some 0.6 points of GDP.

Weight of direct taxation usually lower in the new Member States

Taxes are traditionally classified as direct or indirect; the first group as a rule allows greater redistribution as it is impractical to introduce progressivity in indirect taxes. Therefore, the recourse to direct taxes, which are more 'visible' to the electorate, tends to be greater in the countries where tax redistribution objectives are more pronounced; this usually results also in higher top personal income tax rates. Social security contributions are, as a rule, directly linked with a right to benefits such as old age pensions or unemployment and health insurance; in theory, a strict application of actuarial equivalence would preclude redistribution, but in practice the modalities for calculating contributions and benefits allow considerable leeway in this respect and the situation is quite diversified among Member States.

Generally, the new Member States have a different structure compared with the old Member States; in particular, while most old Member States raise roughly equal shares of revenues from direct taxes, indirect taxes, and social contributions, the new Member States often display a substantially lower share of direct taxes in the total. The lowest shares of direct taxes are recorded in Slovakia (only 20.8 % of the total), Bulgaria (20.9 %) and Romania (23.0 %). One of the reasons for the low direct tax revenue can be found in the generally more moderate tax rates applied in the new Member States to the corporate income tax and the personal income tax. Several of these countries have adopted flat rate systems, which typically induce a stronger reduction in direct than indirect tax rates.

Also among the old Member States (EU-15) there are some noticeable differences. The Nordic countries as well as the United Kingdom and Ireland have relatively high shares of direct taxes in total tax revenues. In Denmark and, to a lesser extent, also in Ireland and the United Kingdom the shares of social contributions to total tax revenues are low. There is a specific reason for the extremely low share of social contributions in Denmark: most welfare spending is financed out of general taxation. This requires high direct tax levels and indeed the share of direct taxation to total tax revenues in Denmark is by far the highest in the Union. Among the old Member States, Germany's system represents in a sense the opposite of Denmark's; Germany shows the highest share of social contributions in the total tax revenues, while its share of direct tax revenues in the total is among the lowest in the EU-15.

Clear downward trend in top personal income tax rates since 1995

Currently, the top personal income rate amounts to 37.8 %, on average, in the EU. This rate varies very substantially within the Union, ranging from a minimum of 10 %in Bulgaria to a maximum of 59 % in Denmark. As a rule, the new Member States display lower top rates, while the highest rates are typical of Member States with the most elevated overall tax ratios, such as the Nordic countries, although the Netherlands show the fourth highest top personal income rate while ranking 15th in terms of the tax ratio (excluding social security contributions). The lowest rates are found in Bulgaria and Cyprus, where the tax ratio (excluding SSCs) is respectively the lowest and the second lowest in the Union.

The Taxation Trends report for the first time this year presents data on the development of PIT top rates since 1995. Over this period, there has been a clear and very steady downward trend in the top rate, which became even stronger after the turn of the century. Twenty-two EU Member States have cut the rate whereas only one country (Portugal) increased it slightly. In just four cases the rate never changed (in Austria, Latvia, Malta and the United Kingdom). Hence, the EU-27 average went down by 10.6 percentage points since 1995 and 7.3 percentage points since 2000. The reduction since 2000 is most noticeable in the Central and Eastern European countries, with the biggest cuts having taken place in four countries that adopted flat rate systems, Bulgaria (– 40.0 percentage points), the Czech Republic (– 28.0), Romania (– 24.0) and Slovakia (– 23.0). On average, these countries have reduced the top PIT rate by more then eleven percentage points since 2000, whereas the former EU-15 countries have reduced the top rate by a mere 3.5 points.

Lower PIT top rates do not necessarily imply a trend towards lower PIT revenues, because in systems with several tax brackets, the percentage of taxpayers taxed under the highest rate is typically quite limited. Several countries, however, have moved towards systems with fewer brackets, and flat rate systems, which have been adopted in several Central and Eastern European countries, are characterised by a single PIT tax rate, so that any reduction is immediately reflected in the tax revenue. Furthermore, cuts in the top PIT rate typically do not occur in isolation, but are part of balanced packages which include tax reductions for lower-income taxpayers. Indeed, in most Member States where large cuts in the top PIT rate were introduced, total PIT revenue declined perceptibly.

Corporate income tax rates continue their rapid decline throughout the EU

Since the second half of the 1990s, CIT rates in Europe have been cut forcefully, from a 35.3 % average in 1995 to 23.5 % now. This trend has not stopped, as five Member States countries cut the rate in 2009, although a relatively sharp increase (5 percentage points) in Lithuania offset almost completely the impact of the cuts on the EU-27 average.

Although the downward trend has been quite general, corporate tax rates still vary substantially within the Union. The adjusted statutory tax rate on corporate income varies between a minimum of 10 % (in Bulgaria and Cyprus) to a maximum of 35.0 % in Malta, although the gap between the minimum and the maximum has shrunk since 1995. As in the case of the personal income tax, the lowest rates are typical of countries with low overall tax ratios; consequently, the new Member States generally figure as having low rates (with the noteworthy exception of Malta, which is also the only Member State that has not changed its CIT rate since 1995). The reverse is, however, not true: unlike the case of the personal income tax, the two Member States with the highest tax burden, Denmark and Sweden, display corporate tax rates that are not much above the average. This is linked to the adoption by these countries of Dual Income Tax systems, which by their very nature tax capital income at a moderate rate.

Trend towards more funding to local and regional authorities continues, while social security receives a shrinking share of total revenue

In 2007 about 59 % of the 'ultimately received' aggregate tax revenue in the EU-27 (including social contributions) was claimed by the central or federal government, roughly 29 % accrued to the social security funds, and around 11 % to local government. Less than 1 % of tax revenue is paid to the institutions of the European Union. There are considerable differences in structure from one Member State to another; for instance, some Member States are federal or grant regions a very high degree of fiscal autonomy (Belgium, Germany, Austria, Spain). In the United Kingdom and Malta, the social security system is not separate from the central government level from an accounting viewpoint, whereas in Denmark most social security is financed through general taxation.

The share of sub-federal revenue (defined as municipalities plus the state level where it exists) varies from less than 1 % to almost one third of the total. Sweden, Germany, Spain and Belgium in particular show high shares of total taxes received by the non-central authorities. At the other end, this share is just around 1 % in Greece and Cyprus, while in Malta local government does not receive directly any tax funds. As for the share of revenue accruing to social security funds, the highest values in the EU are reported by France and Slovakia. It should be stressed, however, that the amount of the ultimately received shares of revenue is a very imperfect indicator of fiscal autonomy, as a given government level may be assigned revenue streams which it has little legal authority to increase or decrease.

In several EU Member States decentralisation has been an important feature for several years already. Accordingly, data show that the share of total tax revenue accruing to state and local government have been gradually increased. In contrast, social security funds, possibly owing to pension system reforms or efforts made to shift the tax burden away from labour, have received a shrinking portion of revenue.

The 'tax mix' receives renewed policy attention

The tax mix, or distribution of revenue by type of tax, is a structural variable that generally evolves only slowly. Nevertheless, it has been receiving renewed policy attention recently, in light of the worries that increased capital mobility and the accession to the EU of a group of low-tax countries might lead to even greater reliance on taxation of immobile factors (such as labour) than has been the case so far. Given that, owing to budgetary constraints, relatively few Member States have succeeded in decreasing rapidly the overall tax ratio, it has been argued that the only way to achieve quick reductions in the overall tax burden on labour is to shift the tax burden onto other bases, and in particular consumption. In fact, in the majority of countries, the tax burden on consumption has increased, although this has not generally been the case for the larger Member States. As for labour taxation, the trend towards a lower tax burden is slow and mainly concentrated in the Central and Eastern European Member States. As for capital taxation, the picture is not clear-cut; despite significantly lower corporate tax rates, partly influenced by cyclical factors, the revenues from taxes on capital have been growing again in importance during the years 2003-2007, both in terms of GDP and as a share of total taxation.

Consumption taxes: on the rise in most Member States

Data for the ITR on consumption, our preferred measure of the effective tax burden, show that, despite stagnant revenue, effective taxation of consumption is, in most EU countries, on an uptrend since 2001. The EU-27 arithmetic average went up by 1.8 percentage points since that year and by two tenths of a point in 2007.

The upward trend is quite broad; compared with the 2000 base year, the ITR has increased in 17 countries. Moreover, the only sizeable decline in the ITR took place in Finland (2.1 percentage points since 2000), while several Member States report increases of three points or more. The new Member States have experienced the greatest increase.

A decomposition of the ITR on consumption in its constituent elements reveals that the role played by taxes other than VAT is usually quite important; taxes on energy (typically, excise duties on mineral oils) and on tobacco and alcohol together make up, on average, around one quarter of the revenue from consumption taxes. The differences in consumption of excisable goods are such that their revenue effects go well beyond the spread in tax rates: Bulgaria raises from alcohol and tobacco excises almost five times as much revenue as the Netherlands.

The comparison between the standard VAT rate and the VAT component of the ITR on consumption also highlights the significant differences amongst Member States in the extent of exemptions (either in the form of base reductions or of reduced rates) from VAT; in some Member States, their impact on the ITR is only equivalent to a couple of percentage points, but at the other extreme the impact reaches 10 percentage points.

Labour taxes: slight decline since the turn of the century, but mostly concentrated in the new Member States

Despite a wide consensus on the desirability of lower taxes on labour, the levels of the ITR on labour confirm the widespread difficulty in achieving this aim. Although the tax burden on labour is off the peaks reached around the turn of the century, the downward trend essentially came to a halt in the euro area as several countries witnessed increases in the last few years. However, in the Central and Eastern European Member States, the decline in the ITR on labour is more pronounced; the average in these Member States has gone down by more than three percentage points since 2000, while the EU-27 average decreased by only 1.5 percentage points. The three Nordic Member States also reduced somewhat their ITRs on labour in 2007, albeit from rather high levels. The new Member States do not always display low ITRs on labour: in three of them the ratio lies above the EU-27 average. The lowest overall ITRs on labour are found in Malta and Cyprus; this might perhaps be linked to their historical ties to Britain, given that the United Kingdom, as well as Ireland, displays a markedly low ITR on labour. Nevertheless, despite the presence of a number of low taxing Member States, taxation on labour can be said to be much higher in the EU than in the main other industrialised economies.

In most Member States, social contributions account for a greater share of labour taxes than the personal income tax. On average, about two thirds of the overall ITR on labour consists of non-wage labour costs paid by both employees and employers. Only in Denmark, Ireland and the United Kingdom do personal income taxes form a relatively large part of the total charges paid on labour income.

Capital taxation: base broadening and cyclical factors have so far offset the impact on revenue from the cuts in corporate tax rates

Despite the sizeable cuts in rates, revenues from the corporate income tax, the most important tax on capital income, have been growing since 2003; a similar rebound is visible also in other related indicators such as revenue from taxes on capital and business income taxes. Also in a longer time frame, i.e. the comparison with 1995, the ITR on capital does not show a decline, as would be expected given the cuts in the corporate tax rates.

The timing of the pick-up in revenue suggests that cyclical effects, to which the ITR on capital is much more susceptible than the ITRs on consumption and labour, are playing an important role. The EU-25 ITR on capital reached a peak between 1999 and 2000, then declined, and picked up again, in line with the business cycle. Nevertheless, the extent by which the ITR has been diverging from the statutory rates suggests that the measures to broaden the corporate tax base, which have very frequently accompanied the rate cuts, have been playing an important role in sustaining the ITRs; the measures taken at EU level to limit harmful tax competition may also have resulted in less erosion of the base for capital taxes. Eventually, however, cyclical effects fade out (as they depend largely on the existence of carry-over provisions for losses incurred in previous years and on capital gains) and base broadening has its limits. Another possibility is that, stimulated by the steep fall in corporate tax rates, growing incorporatisation is deceptively boosting revenues at the expense of the personal income tax.

The absolute levels of the ITRs on capital differ widely within the EU, ranging from 50.5 % in Cyprus to a mere 10.3 % in Estonia. A breakdown of the ITR on capital shows that in most cases, the ITRs on capital and business income cluster around 20 %; the variation in the tax burden on capital derives largely from wide differences in the taxation of capital stocks/wealth. Their revenue is very limited in some Member States, but contributes a significant amount of revenue in several others, depending not only on the tax rates but also on the size and profitability of the capital stock. In five Member States, taxation of capital stocks/wealth yielded in 2007 at least 3.5 % of GDP, i.e. as much as the average revenue from the corporate income tax. In France, taxation of capital stocks/wealth yields over 50 % more than the corporate income tax itself.

Environmental taxes declining in the EU-15 but increasing in the newly acceded Member States

The development of environmental tax revenue is currently subject to opposite forces; on the one hand, policymakers give high priority to environmental protection, a trend which may grow even stronger as attention focuses on the threat from global warning; on the other, greater reliance on policy instruments other than taxes, such as emissions trading, and growing political pressure to accommodate the strong increases in the oil price recorded in the last few years by reducing taxation of energy.

Currently, roughly one euro out of every sixteen in revenue is raised from environmental taxes. Data, however, show that, as a percentage of GDP, environmental tax revenues have been on the decline, in the weighted average, since 1999, particularly in the euro area. This trend continued in 2007. In the 12 new Member States, which before accession to the EU typically levied low environmental taxes, revenues from this kind of taxes have instead shown a strong progression over time, so that by now there is practically no difference vis-à-vis the EU-15 in this respect; this was, however, not enough to offset the decline in the EU-15.

Equal revenue does not mean equal tax rates. Countries with higher energy intensity may display the same revenue although the tax rates are lower. This is, indeed, what happens in the domain of energy taxation, which contributes some three-quarters of revenues from environmental taxes. The implicit tax rate on energy shows that wide differences in the tax revenue raised per unit of energy consumed persist (the highest taxing country levies over five times as much revenue per unit of energy than the least taxing Member State), and indicates that in the weighted average, once adjusted for inflation, taxation of energy has been gradually declining.

As from this year, the Taxation Trends report contains a breakdown of energy taxes. The data show that in the vast majority of cases, Member States raise little revenue from energy taxes on sources other than transport fuels, such as electricity.

Member States introduce special tax measures to offset the effects of the global financial crisis

The statistics covered in the Taxation Trends report cover the years up to 2007, before the global economic and financial crisis spread to Europe. From the second half of 2008 onwards, governments have scrambled to introduce measures to support the economy or to consolidate public finances. A budgetary analysis of these measures lies outside the scope of this report, which aims instead at giving a broad picture of the variety of measures introduced in the tax domain. Besides the more detailed country-by-country description in Part III of the report, the main tax measures adopted in 2008 and at the beginning of 2009 are listed in a synoptic box in the following pages. Although it is too early to undertake a full analysis of these measures, not least because some governments were still considering different options at the time of writing, some features stand out.

- The measures are quite diverse in form, scope, and budgetary impact, with some Member States introducing substantial reforms, others counting primarily on the automatic stabilisers to support economic activity although complementing this with some targeted actions.

- Although in the majority of cases the measures consist of discretionary tax cuts, some Member States have instead opted for revenue increasing measures, owing to the lack of budgetary room for manoeuvre.

- One of the most common types of measure was the direct support of household spending power by reductions in the PIT. This happened more often through increases in allowances than cuts in rates, because of equity considerations but also because an increase in allowances, having a proportionally higher impact on lower-income households, is expected to more directly boost private consumption. In a few cases, PIT rates were even increased, but this was typically limited to higher incomes. Some countries suffering from particularly pronounced drops in GDP decided to defer previously decided PIT rate cuts. This seems to point towards some increase in progressivity in the coming years.

- With the notable exception of the United Kingdom, Member States have generally not opted for temporary VAT rate cuts as a way to boost consumer spending in the short run; Finland decreased VAT on food, however. In contrast, a number of Member States hiked VAT rates, curtailed the scope of exemptions and reduced rates, or increased excise duties to help cover the budgetary shortfall generated by the slump.

- Likewise, measures to reduce the general CIT rate were comparatively rare, presumably owing to the fact that such a measure, while boosting confidence in the long run, has no short-term impact on loss-making companies. Nevertheless, many Member States attempted to support business investment through measures such as more generous depreciation allowances or investment tax credits; in a few cases, the cuts were targeted towards SMEs. Several Member States have opted for granting these incentives for a limited period of time only, in order to give an immediate boost to capital spending.

- In general, as world prices decreased with the onset of the recession, Member States did not cut excise duties on energy products, although e.g. Italy cut excise duties on gas for industrial use and granted some tax and social contributions relief to road haulage operators.

- A wide variety of measures targeting individual sectors were introduced. In particular, several Member States tried to dampen the slump in the housing sector by granting tax reductions of various kinds; Cyprus and Malta took measures to reduce the tax burden on tourism; other measures aimed at supporting stock prices or reducing inheritance taxes.

Concluding remarks

Given the fact that the EU is, in general, one of the most highly taxed areas in the world, one pressing issue is what lessons tax policy should learn from the global financial crisis. In theory, its well-developed welfare systems, made possible precisely by those high taxation levels, should have made Europe more resilient; in addition, heavy taxation is usually believed to take a higher toll on growth during cyclical upturns, when it contributes to factor scarcity and exacerbates inflation, rather than in a recession; yet, although the crisis originated in the United States, it spread quickly to the EU and resulted in a slump of comparable proportions. Does the crisis suggest that another fiscal policy model would have been preferable? The measures introduced varied considerably across Member States, but the substantial differences in the impact of the crisis and in Member States' budgetary and financial constraints justified a differentiated response. Nevertheless, the array of measures targeting individual sectors raise the question of whether industry-specific instruments represent an optimal response to an economy-wide slump, not to mention that such a patchwork of incentives risks being incoherent at European level.

A *prima facie* exam of the measures introduced seems to point to a continuation of the recent trend towards greater reliance on consumption rather than labour or capital taxes. This would be in line with the remarkable decline in CIT rates observed since the end of the 1980s and which the statistics in this report document to be ongoing, and with the markedly cyclical nature of capital tax revenue.

Another interesting question relates to what will be the future path of the overall tax ratio. Although the depth of the recession as well as the discretionary tax cuts introduced in many countries make it a safe bet that the tax-to-GDP ratio will decrease in the coming couple of years, further down the road a reduction in deficit levels will be inevitable, and the public debt accumulated during the downturn will have to be serviced. In addition, the baby boom generation will soon start to reach retirement age. Will this, in due course, lead to a tax burden on active workers that even exceeds the historic peaks of 1998-2000?

One effect of the crisis on the policy debate has been that demands for fairness have come more clearly to the forefront. This, together with the budgetary needs, has stimulated international cooperation on ensuring more effective taxation of portfolio investments held abroad. There is now visibly greater international consensus on information exchange, the final objective of the Savings Directive and of the Mutual Assistance Directive, which embody the EU approach in this area.

One interesting observation contained in the report is that the Member States with the highest tax ratios tend to show less short-term change in tax ratios than the others, as if high taxes somehow introduced elements of rigidity or, in other words, perpetuated themselves. Many tax-cutting programmes have been announced over the last ten years, but their results were generally modest, as highlighted by the limited decline in tax-to-GDP ratios. This has brought attention to the issue of whether economic growth could not be stimulated by raising the same or a similar amount of revenue but in different forms. A reflection is ongoing on whether offsetting cuts in direct taxes by raising consumption taxes would be beneficial. The data indeed show a trend, in most countries, towards a higher ITR on consumption since 2001, and indeed, some of the boldest measures taken in response to the crisis fit in this logic. It is, however, difficult to evaluate to what extent this process is intentional or the by-product of other factors, such as mere political expediency or, in the new Member States, the adaptation in excise duties to EU minima.

Finally, the evidence from our survey of environmental taxation deserves careful reflection, particularly in the current context of revenue shortfalls. Revenue from environmental taxes has been declining, as a percent of GDP, for several years. This may be justified by greater efforts done elsewhere, for example in emissions trading, by the trend decline in energy intensity, and by the fact that energy prices at the source have grown considerably; but is nevertheless at odds with the perceptions of the general public as well as with oft-stated policy objectives. Finally, the wide divergence of taxation per unit of energy raises the question of the optimal degree of differentiation between EU Member States that participate in the same Internal Market but have unequal industrial structures and climate conditions.

Box 1: Overview of the main tax related measures taken in response to the economic and financial crisis

Austria

- Annual tax relief of about € 3 billion annually (1.1 % of GDP) targeted by the tax reform law 2009 (*Steuerreformgesetz 2009*) consisting of the following:
  - Changes in the income tax system (€ 2.3 billion): lowering of the marginal rates of the second and third brackets; increase in the width of the zero-rate bracket by € 1 000 (to € 11 000); increase in the tax bracket for the top rate of 50 % by € 9 000 (to € 60 000).
  - Introduction of family tax relief package (€ 0.5 billion): increase in child allowances and child-related tax credits, tax allowances for childcare costs, tax exemptions for childcare subsidies paid by employers.
  - Increase in the tax allowances for enterprises from 10 % to 13 % from 2010 onwards.
- Increased depreciation of 30 % in the year of investment introduced for the years 2009 and 2010 (€ 0.7 billion).

Belgium

- VAT rate reduction (from 21 % to 6 %) for the construction of private (for € 50 000) and social dwellings.
- Acceleration of VAT restitutions.
- Increase in the general reduction for the wage withholding tax from 0.25 % to 0.75 % from 1 June 2009 and to 1 % as from 1 January 2010, in the reduction for scientific personnel to 75 % (from 1 January 2009), and in the reduction for night and shift workers from 10.7 % to 15.6 % (from 1 June 2009).
- Increase in the number of overtime hours which qualify for reduced wage withholding tax from 65 hours to 100 hours in 2009 and to 130 hours in 2010.
- Temporary prolongation of the payment delay for the wage withholding tax.

Bulgaria

- Introduction of a 5-year tax holiday for investment, applicable, under certain conditions, to profits from agriculture, processing, production, high-tech industry and the building of infrastructure. The tax holiday is considered state aid and would apply subject to approval by the European Commission.
- Introduction of mortgage interest deduction for young families.

Cyprus

- Decrease in the CIT rate for semi-governmental organisations from 25 % to 10 %.
- Temporary reduction of the VAT for hotel accommodation by 3 percentage points to 5 %.
- Decrease in the airport landing fees levied on airline companies and cancelled overnight stay fees levied by local authorities.

Czech Republic

- Reduction in employers' and employees' SSC rates.
- Acceleration in depreciation of particular assets.
- Lower VAT rate for labour-intensive local services.
- VAT deduction on passenger cars for entrepreneurs.

Denmark

- Increase in the earned income tax credit from 4 % to 4.25 %.
- Increase in the personal allowance from DKK 42 400 (€ 5 700) to DKK 42 900 (€ 5 750) and increase in the middle tax bracket basic allowance from DKK 289 300 (€ 38 850) to DKK 347 200 (€ 46 600).
- Savings of almost DKK 50 billion in the compulsory supplementary pension scheme can be withdrawn in 2009 with a favourable tax treatment.
- Payment of VAT and withheld personal income taxes is postponed.
- The government has initiated a major tax reform to be phased in from 2010 to 2019. The main measures are to reduce the rate of the bottom tax bracket from 5.26 % to 3.76 %, abolish the medium tax bracket with the 6 % rate altogether, and increase the allowance of the top tax bracket to DKK 389 900 in 2010 and DKK 424 600 in 2011. The ceiling of the top marginal tax rate will be reduced from the current 63 % to 56 %.

Estonia
• Increase in the reduced VAT rate from 5 % to 9 %, narrowing of the range of goods to which the reduced rate is applicable. • Deferral of the income tax rate cut by 1 percentage point. • Deferral of the increase in the annual personal allowance.
Finland
• Increase in the excise duties on alcohol and tobacco by 10 %. • Adjustment for inflation of the income tax scale by 4 %. • Rate reduction in all the four state income tax brackets (between 1 and 1.5 percentage points). • Introduction of a new labour income tax credit targeted at low- and medium-income earners. • Increase in the pension income allowances in state and municipal income taxation. • Increase in the tax credit for paid household work to € 3 000 per taxable person. • Decrease in the national pension contribution paid by employers by 0.8 percentage points as of 1 April 2009. • Decrease in the VAT rate on food from 17 % to 12 % as of 1 October 2009.
France
• PIT reduction for low-income households resulting in a cut of 2/3 in 2009 PIT for people concerned. • Treasury measures for firms: tax credit reimbursements (research tax credit and carry-back tax credits) and VAT reimbursements are anticipated. • Local tax (*Taxe professionnelle*) exemption of all investments on equipments and property made from 23 October 2008 to 31 December 2009. • As from 1 July 2009 a reduced VAT rate of 5.5 % will apply to restaurant services. • It is planned that from 2010 onward the local business tax will no longer be based on the annual value of commercial and industrial equipment, but will be calculated only on the annual rental value of immovable property. The aim of the reform is to enhance the competitiveness of French companies by reducing the tax burden on investment.
Germany
• Reduction of the bottom PIT rate from 15 % to 14 %. • PIT thresholds are increased by € 400 retroactively as from 1 January 2009 and again by € 330 as from 1 January 2010. • Increase in the basic allowance from € 7 664 to € 7 834 retroactively as from 1 January 2009 and to € 8 004 as from 1 January 2010. • Increase in the PIT credit for services supplied by self-employed persons for household repairs to 20 % of € 6 000 (i.e. maximum € 1 200). • One-off payment of € 100 per child in 2009 (*Kinderbonus*). • Incentives for buyers of environmentally friendly cars. • Increase in the thresholds for the expensing of movable fixed assets for SMEs. • Introduction of declining-balance depreciation at a rate of 25 % for movable fixed assets acquired or produced after 1 January 2009 and before 31 December 2010.

Greece

- Introduction of extra tax on personal income for high income earners (income above € 60 000). The tax is gradually increased from € 1 000 for income between € 60 001 and € 80 000 to € 25 000 for income above € 900 000.
- Income policy 2009 for public servants, doctors in the national healthcare system, employees of public law corporate bodies, local authorities, Police, Fire Department, Port's Corps and the Army, consists of a non-taxable amount of € 500 for gross income up to € 1 500, and € 300 for gross income between € 1 501 and € 1 700. No other wage increase will be granted in 2009.
- Introduction of special benefit of € 500 to unemployed persons or low-income pensioners who already had contracted a mortgage loan in March 2009.
- Introduction of a special social cohesion benefit for 2009 to low-income pensioners, farmers-pensioners and long-term unemployed persons. The benefit is non-taxable and ranges from € 100 to € 200 depending on the geographic region of residence.
- Reduction from 2.0 % to 0.5 % of a local authority duty imposed on short-stay accommodation (in hotels, motels, bungalows, rooms-to-let facilities, camping) and on gross revenue of restaurants, clubs, bars, etc.
- Suspension of the banking fee of 0.6 % on loans to hotels or other types of accommodation facilities for 2009.
- For the years 2009–2010, reduction of the applicable rate of the single property tax from 1 % on owner- occupied buildings and 6 % on building plots to 0.33 % for real estate owned by hotel businesses.
- Car registration tax reduction of 50 % for the period April–August 2009.
- Suspension of airport landing and parking fees for the period April–September 2009 (excluding Athens International Airport).

Hungary

- Labour and personal income taxes are planned to be decreased, while taxes on consumption and capital are expected to increase further.
- The solidarity tax for corporations and private persons with high income is planned to be abolished as of 2010.
- As from 1 July 2009, the general VAT rate will be increased from 20 % to 25 %. A reduced 18 % VAT rate will be introduced temporarily for dairy products, baked goods and district heating (as from August 2009).
- As from 1 January 2009, the lowest PIT bracket (taxed at an 18 % rate) will be increased from HUF 1.7 million (€ 5 900) to HUF 1.9 million (€ 6 600).
- As from 1 July 2009, the employers' SSC will be decreased by 5 percentage points (applied up to the double of the minimal wage).

Ireland

- Increase in the standard VAT rate from 21 % to 21.5 % in December 2008 and in some excise duties.
- Widening of the standard tax band by € 1 000 for a single person, and by € 2 000 for a married couple with 2 incomes.
- Introduction of income levy of 1 % on gross income up to € 100 100 per annum and a rate of 2 % for income above this amount. On income in excess of € 250 120 a further 1 % is payable. Social welfare payments are excluded from this levy. From 1st May 2009 the income levy rates are doubled to 2 %, 4 % and 6 %. The exemption threshold is € 15 028. The 4 % rate applies to income in excess of € 75 036 and the 6 % rate to income in excess of € 174 980.
- Introduction of a pension levy on public sector wages. New arrangement: first € 15 000 of earnings exempt, 5 % on next €5000 of earnings, 10 % on earnings between € 20 000 and € 60 000 and 10.5 % on earnings above € 60 000.
- Increase in the employee SSC ceiling from € 50 700 to € 52 000. From 1st May 2009 increase in the employee SSC ceiling from € 52 000 to € 75 036.
- Increase in the capital gains tax from 20 % to 22 %. From 8 April 2009 increase to 25 %.
- From 8 April 2009 increase in capital acquisitions tax rate from 22 % to 25 %.
- From 8 April 2009 increase in Deposit Interest Retention Tax (DIRT) from 23 % to 25 %.
- Increase in the R & D tax credit from 20 % to 25 % of incremental expenditure.
- Reduction of the stamp duty top rate from 9 % to 6 %.
- Payment dates for corporation and capital gains tax are to be brought forward in 2009.

Italy
• Stronger measures to fight tax evasion. • IRAP paid by employers is now 10 % deductible from CIT or PIT. • Prorogation of the partial exemption from taxation of productivity-based pay increases. • Reductions in advance tax payments by incorporated companies. • Introduction of a 5.5 point surcharge on the CIT, applicable to companies operating in research and exploitation of hydrocarbons, oil refining, production and sale of petrol, gas and similar products, and to production and sale of electricity (so-called 'Robin tax'). • Substitute taxation (on an optional basis) at a reduced rate on asset revaluations, bringing tax accounting better in line with company accounting. • Cut on excise duties on gas for industrial use and series of cuts of taxes and social contributions for road haulage operators. • Prorogation until 2011 of the measures supporting housing renovation, i.e. the 36 % PIT tax credit on renovation expenses, and the reduction to 10 % of the applicable VAT rate. • Capping of the interest rate for variable-rate mortgages (the Government will reimburse the difference to the banks through tax credits). • Tax incentives for purchases of household appliances and furniture. • Substantial cut of taxes on housing, freeing the first property owned from the municipal property tax (ICI).
Latvia
• Increase in the standard VAT rate from 18 % to 21 %. • Increase in the reduced VAT rate from 5 % to 10 %. Various types of goods have been made ineligible for the reduced rate. • Increase in excise duty on cigarettes from January 2009 and increase in excise duties on fuel, smoking tobacco, coffee, alcohol and non-alcoholic beverages from February 2009. • Reduction of the PIT rate from 25 % to 23 % and increase of the basic tax allowance, the allowance for dependent persons and the disability allowances.
Lithuania
• Increase in the standard VAT rate by one point to 19 %. • The 9 % VAT rate applying to construction services and the 5 % super-reduced rate are abolished, although short transitional regimes apply to some of these. • Cut of the PIT rate to a flat 15 % and introduction of separate compulsory health insurance contribution of 6 % (instead of allocating 30 % share of PIT to compulsory health insurance fund), bringing the combined rate on employment income to 21 %. • The application procedure of the tax-exempt minimum is increased for low-income persons. The basic personal allowance applies only to employment income and is determined on a sliding scale, declining as income increases. The additional tax-exempt amount is also increased. • Significant adjustments are made to the social security system, mainly with the aim of better integrating in the system various categories of self-employed persons. • Increase in the CIT rate from 15 % to 20 %. • Introduction of significant investment incentives for the period up to 2013. • Increase in excise duties on fuel, alcohol and cigarettes.

Luxembourg
• Policy of converting tax relief into tax credits: replacement of the general tax allowance and the tax allowance for the retired of € 600 by a tax credit of € 300; replacement of the deduction of € 1 920 applied to unmarried taxpayers with dependent children by a tax credit of € 750. • Linear indexation by 9 % of the PIT brackets without modifying the underlying tax rates. • Reduction of the CIT rate from 22 % to 21 %. • Abolition of capital duty. • Housing: increase in the deduction ceiling for the one-off premium paid as part of a temporary life insurance policy; increase of the deductibility ceiling for interest paid on a housing credit; decrease of the 'social' credit rate; extension of the preferential tax treatment for the construction or renovation of owner-occupied dwellings (reduced VAT rate of 3 %). • Extension of the 80 % tax exemption for income and gains from intellectual property rights to internet domain names. In addition, qualifying intellectual property is exempted from net wealth tax.
Malta
• Extension of VAT exemptions to cultural services and to registration tax on trucks. • Increase in the PIT thresholds. • Travellers' departure tax is abolished.
Netherlands
• Increase in the tax credit for working parents. Employee's contribution to the unemployment social security scheme is abolished. • Introduction of a bonus of up to € 3 000 for employees working after reaching the age of 62. Increase in the ceiling for the deduction of annuity premiums related to private pensions. • Introduction of a number of administrative simplifications in the tax and social security systems. • Change of the basis for car taxation from list prices to CO_2 emissions. For highly fuel-efficient cars the motor vehicle tax is abolished and for cars running on natural gas the motor vehicle tax is reduced. A tax exemption is introduced for hydrogen. Demolition subsidy for old cars. • Abolition of tax on flight tickets. • Easing of depreciation rules for investments in 2009 and easing of requirements on loss compensation. • Tax cuts for SMEs, including an exemption granted to a larger share of their profits. Increase in the relief for new enterprises (startersaftrek). • Companies may pay VAT quarterly instead of monthly. • Increase in WBSO tax credits for R&D investments and in EIA/MIA/VAMIL environmental subsidies.
Poland
• Introduction of new PIT rates of 18 % and 32 % (replacing the 2008 rates of 19 %, 30 % and 40 %). • Decrease of the period for VAT refund from 180 to 60 days. • Refund of the VAT on bad debts lasting more than 180 days by the tax authorities. • Increase in the investment incentive (i.e. an immediate accelerated depreciation of certain fixed assets), which is available to small taxpayers and newly established entities under both personal and corporate income taxes.

Portugal
• Introduction of a new general 12.5 % CIT rate for taxable profits up to € 12 500. • Introduction of tax credits for investment — CIT deduction and exemption from the payment of municipal real estate tax, municipal real estate sales tax and stamp duty tax. • Increase in deductions from taxable income related to education, health, dwelling and nursing home expenses. • Exclusion of commuting expenses from the taxable income. • Increase in the personal deduction allowance for disabled taxpayers. • Reduction in advance payments for SMEs. • Reduction in the top real estate tax rate and extension of the period of payment exemption. • Reduction of the VAT reimbursement threshold. • Anticipation of VAT and PIT reimbursements.
Romania
• VAT rate reduction (from 19 % to 5 %) for the construction of social dwellings and, subject to conditions, private dwellings not exceeding 120 m2 and a value of RON 380 000 (about € 90 000). • Taxpayers who derive income from agricultural activities will be required to pay a 2 % tax on their gross income. • Increase in employee's and employers' SSC rates; decrease in employers' contributions for work accidents and professional diseases by 0.5 %. • Increase in level of deductibility of voluntary health insurance (from € 200 to € 250) and threshold of deduction for employees' contribution to facultative pension schemes (€ 200 to € 400). • Increase in the cap for the deductibility for voluntary pension and health contributions from corporate and personal income. • Temporary tax exemptions on capital gains from trading securities on the Romanian stock market. • Specific types of capital gains realised by non-residents are now subject to permanent tax exemption. • Reduction in dividend taxes of non-residents from 16 % to 10 %. • Reduction in the car pollution tax. • Increase in excise duties on alcohol beverages, cigarettes and fuel as from April 2009.
Slovakia
• Increase in the PIT basic allowance from € 3 435.27 to € 4 025.70 per year. • Introduction of an employee tax credit as a form of negative income tax in the maximum amount of € 181.03 per year. • Decrease in the rate of contribution to the Social Insurance Agency (reserve fund of solidarity) from 4.75 % to 2 % for mandatorily insured self-employed. • Reduction of the period for refunding the VAT deductions from 60 days to 30 days. • Changes in rules of property depreciation — increase in input price for investment property depreciation, accelerated depreciation and depreciation of components. • Changes in tax legislation concerning business environment — group registration of VAT, retroactive registration and simplification of record-keeping for tax purposes for small entrepreneurs. • State subsidy and corporate income tax allowance for research activities carried out by the business sector.
Slovenia
• Increase in investment allowance for sole entrepreneurs investing in equipment or intangible assets. • Increase in investment allowance for agriculture and forestry activities. • Increase in investment allowance for legal entities investing in equipment or intangible assets and softer conditions for use of allowance. • Prepayments for corporate income tax calculated in a way that lower tax rate for current tax period is taken into consideration. • Increase in excise duties on petrol and gas oil and on alcohol beverages to secure stable inflow of public revenues. Increase of excise duties on tobacco products are planned for May 2009.

Spain
• Temporary non-taxation from Tax on Capital Transfers and Documented Legal Act (ITP/AJD) for residential property registration purposes (2009–2010). • A 100 % tax rebate on the wealth tax. • Acceleration of VAT restitutions. • Free depreciation for companies maintaining employment. • Interest rate reduction in case of deferment of tax payments. • Elimination of projected phase-out for R & D tax deduction in the CIT. • Deadline extension of contributions made to housing bank accounts schemes and own-housing reinvestment. • Advanced claim of own housing mortgage tax deduction through monthly withholding tax payments. • Abatements and reductions of SSC for hiring unemployed workers with children. • An additional tax credit of € 400 is granted to working and self-employed taxpayers to support household purchasing power.
Sweden
• Cut in the CIT rate from 28 % to 26.3 %. • Reduction in the rate of SSC by 1 percentage point for employees and self-employed. • Further reductions of SSC for persons aged under 26. • Increase in the in-work tax credit. • Increase in the lower tax bracket for central government income tax. • Increase in the tax-free personal allowance for taxpayers aged over 65 years old. • Amendment of the 3:12 rule, applicable to closely held companies, by reducing the amount taxed as employment income. • Limitations on the tax deductibility of intra-group interest payments. • Introduction of a tax credit for renovations, conversions and building maintenance (for households).
United Kingdom
• Temporary reduction in the standard VAT rate from 17.5 % to 15 % with effect from 1 December 2008 to 31 December 2009. • Increase in alcohol and tobacco duty to offset the effects of the VAT reduction. • Increased personal income tax allowances for the under 65s by GBP 130 above indexation. • Deferral of the planned increase in the small companies' rate of corporation tax. • Temporary exemption from Stamp Duty Land Tax (SDLT) for acquisitions of residential property worth not more than GBP 175 000 for land transactions between September 2008 and end-2009. • Temporary increase in threshold at which empty property becomes liable for business rates. • An increase in capital allowances for new investment to 40% for one year with effect from April 2009. • From April 2010, an additional rate of income tax of 50% will apply to income over GBP 150 000. • Personal income tax allowance will be restricted for annual incomes over GBP 100 000 from April 2010. • From April 2011, increase in national insurance contributions by 0.5 % for employees, employers and self-employed. • From April 2011, tax relief on pension contributions restricted for those with incomes of GBP 150 000 and over, and tapered down until it reaches 20%.
Norway
• Introduction of allowance to carry back company losses (maximum NOK 20 million (€ 2.3 million)) to the preceding two years. The rules are temporary and affect the fiscal years 2008 and 2009. • Increase in tax credit for companies engaged in research and development projects approved by the Research Council of Norway.

Source: Commission services

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GLOSSARY

Country abbreviations		Commonly used acronyms	
BE	Belgium	**EU**	European Union
BG	Bulgaria	**EMU**	Economic and monetary union
CZ	Czech Republic		
DK	Denmark	**MS**	Member State
DE	Germany	**EU-25**	European Union (25 Member States)
EE	Estonia	**EU-27**	European Union (27 Member States)
IE	Ireland	**EU-15**	European Union (15 Member States)
EL	Greece	**EA-16**	Euro area (BE, DE, IE, EL, ES, FR, IT, CY, LU, MT, NL, AT, PT, SI, SK, FI)
ES	Spain	**NMS-12**	New Member States (BG, CZ, EE, CY, LV, LT, HU, MT, PL, RO, SI, SK)
FR	France	**NMS-10**	New Member States (CZ, EE, CY, LV, LT, HU, MT, PL, SI, SK)
IT	Italy	**ECSC**	European Coal and Steel Community
CY	Cyprus	**EEA**	European Economic Area
LV	Latvia		
LT	Lithuania	**PIT**	Personal Income Tax
LU	Luxembourg	**CIT**	Corporate Income Tax
HU	Hungary	**ESA79**	European System of Accounts 1979
MT	Malta	**ESA95**	European System of Accounts 1995
NL	Netherlands	**GDP**	Gross Domestic Product
AT	Austria	**ITR**	Implicit Tax Rate
PL	Poland	**SSC**	Social Security Contributions
PT	Portugal	**VAT**	Value Added Tax
RO	Romania		
SI	Slovenia		
SK	Slovakia		
FI	Finland		
SE	Sweden		
UK	United Kingdom		
NO	Norway (not a member of the EU)		

Introduction

This publication presents time series of tax revenue data from National Accounts for the twenty-seven Member States and Norway. It provides a breakdown of taxes according to different classifications: by type of taxes (direct taxes, indirect taxes, social contributions), by level of government, and by economic function (consumption, labour, capital). It also compiles data for the sub-group of environmental taxes.

The breakdown of tax revenue data computed in percentage of GDP provides indicators of the tax burden and of the structure of taxation in the different Member States, as well as developments over time. As the interpretation of the tax-to-GDP ratio as an indicator for the tax burden requires additional information, an economic classification of taxes has been developed and implicit tax rates (ITR) have been computed for the different economic functions. ITRs measure the effective average tax burden on different types of economic income or activities; in each case, the ITR expresses aggregate tax revenues as a percentage of the potential tax base.

Tax revenues as broken down by types of taxes and by level of government are aggregations of the common national account categories of taxes. These are directly available from the national accounts provided by Member States to Eurostat and follow the classification prescribed by the 'European System of Accounts' (ESA95)[1].The economic classification of taxes and the categorisation of energy taxes is not standard and is computed specifically for the publication 'Taxation trends in the European Union' using more detailed tax revenue data provided by the Member States. The corresponding implicit tax rates require additional assumptions and calculations. Ministries of Finance in the Member States have in particular helped to produce the data required for these computations. The publication gives a comprehensive overview of the methodology and data used for this purpose.

This edition of the publication 'Taxation trends in the European Union' covers the 1995-2007 period, corresponding to the years for which national accounts data are generally available in the ESA95 format.

The publication is divided into three parts. Part I reviews the major trends and developments in taxation in the Union. Part II presents the economic classification of taxes and conducts a comparison of implicit tax rates between Member States. Part III contains 28 country chapters, which review the main trends in the development of the overall tax burden and give an overview of the tax system and of the main recent policy changes. The table of statistics provided for each country contains four blocks of the data: A - Structure of revenues in % of GDP; B - Structure according to level of government in % of GDP; C - Structure by economic function in % of GDP, including the sub-group of environmental taxes; D- Implicit tax rates.

Annex A presents the same data organised differently: each table presents a single tax category, in % of GDP or in % of total taxes, or an implicit tax rate, for all years and Member States for which they are available together with arithmetic or weighted EU averages. Annex B describes the methodology employed in calculating the ratios included in Annex A, the sources used for the tax revenue data and the methods employed by the Ministries of Finance to allocate the revenue of the personal income tax to labour, capital or other sources of taxable income. The lists of all taxes for which revenue data were submitted by the Member States and their respective allocation to the different economic functions and environmental tax categories can be found on the European Union's Europa website: http://ec.europa.eu/taxtrends

1) European Commission (1996).

Overview of taxation in the European Union

1. TAX STRUCTURES AND RECENT DEVELOPMENTS IN THE ENLARGED UNION

A broad or a narrow measure of taxation?

The analysis in this report is mostly based on a wide measure of taxation, i.e. one that includes actual compulsory social security contributions. In theory, social contributions differ from taxes in that contributions should be payments in exchange for insurance services rendered to the individual, such as health or old-age insurance. In practice, however, in the EU Member States workers generally have little or no control about the level of coverage and are often prevented from switching to a different fund to obtain the same insurance at a lower cost; moreover, social security systems often involve substantial redistribution between fund members so that the link between individual payments and risk coverage can be fairly weak. These elements, the fact that the payments are compulsory, and the fact that their level is usually quite high, plead for treating them as taxes. Hence, considering a wide measure of taxation including social contributions seems more appropriate in the context of this report. Nevertheless, data on taxation levels excluding social contributions are also shown in Annex A.

Use of the different averages

For the Union, both the simple arithmetic average and the GDP-weighted average are shown in the Annex A tables. The approach followed in the report is to focus on the GDP-weighted average when comparing the EU as a whole with third countries; the arithmetic average is instead used in comparing individual Member States with the EU as it seems preferable to compare countries with a benchmark that relates only to the policy stance of each country independently of its size. In general, unless otherwise indicated, the arithmetic average is used.

The report shows averages for the EU with its current membership (EU-27), the euro area in its current 16-country composition (EA-16), as well as for the EU at 25 Member States (EU-25), i.e. the membership before the accession of Romania and Bulgaria. The EU-25 average is used whenever a trend over the entire 1995–2007[1)] period is discussed; this choice is due to the fact that data for Romania and Bulgaria do not stretch back to 1995, making the EU-27 average incomplete for the early years analysed.

Level and long-term development of the overall tax burden

In 2007, the overall tax-to-GDP ratio (including social security contributions) in the European Union amounted to 39.8 % in the GDP-weighted average, about 12 percentage points of GDP above those recorded in the United States and Japan. The tax level in the EU is high not only compared with the United States and Japan but more generally; among the major non-European OECD members, only New Zealand has a tax ratio that exceeds 35 % of GDP[2)] .

The high tax-to-GDP ratios in the EU, particularly the EU-15 (the Union of 15 Member States, prior to the 2004 enlargement), are to a large extent the result of the persistent and largely unbroken[3)] upward trend in the tax burden in the 1970s, and to a lesser extent also in the 1980s and early 1990s[4)]. This long-run increase in the overall tax burden was the result of the growing share of the public sector in the economy in those years. Taxes and social contributions were raised in order to finance increasing government spending; labour taxes in particular were increased steadily in order to finance expenditure on the welfare state, notably for old-age pensions, health care,

1) Data prior to 1995 are not analysed, because they were computed under a different statistical framework (ESA79) and are therefore not directly comparable.

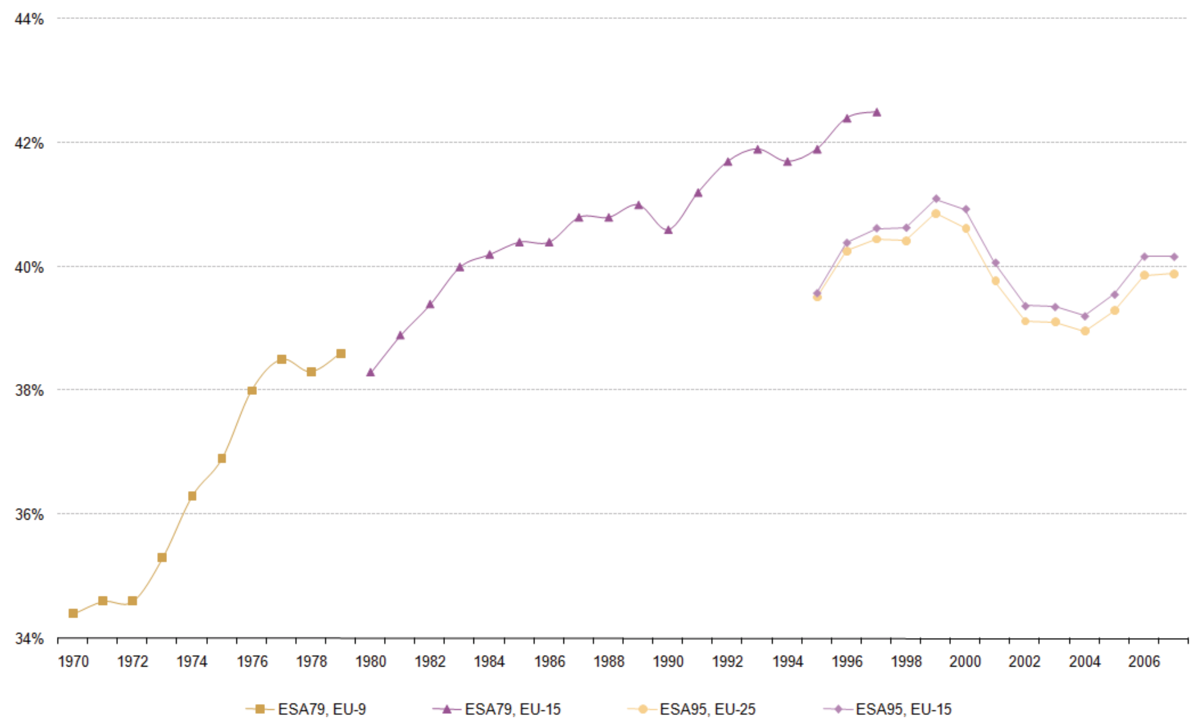
2) See OECD (2008b).

3) Some marked decreases have occurred in single years, for example in 1994 as a result of the severe recession in 1993.

4) European Commission (2000a) reports a long-run increase of 11 percentage points in the euro area between 1970 and 1999, compared with a relatively small increase of 2.5 % of GDP recorded in the United States. Similar differences are reported in OECD (2002a).

access to education and other social benefits[5)]. In most EU countries, a rise in unemployment levels between 1970 and the early 1990s also contributed to the pressure to increase taxes.

Graph I-1 Long-term trends in the overall tax ratio (including SSC)
% of GDP



Source: Commission services

Note: The statistical break is due to a change in classification at Eurostat. All data are GDP-weighted.

From the early 1990s, first the Maastricht Treaty and subsequently the Stability and Growth Pact resulted in the set up of a multilateral budgetary surveillance framework, within which Member States have undertaken a series of fiscal consolidation efforts. In a number of Member States, fiscal consolidation relied primarily on restricting or scaling back primary public expenditure (not least by cutting or postponing public investment), in others the focus was rather on increasing taxes (in some cases temporarily). For some Member States, the fiscal consolidation effort in the run-up to the EMU ruled out any major tax cuts.

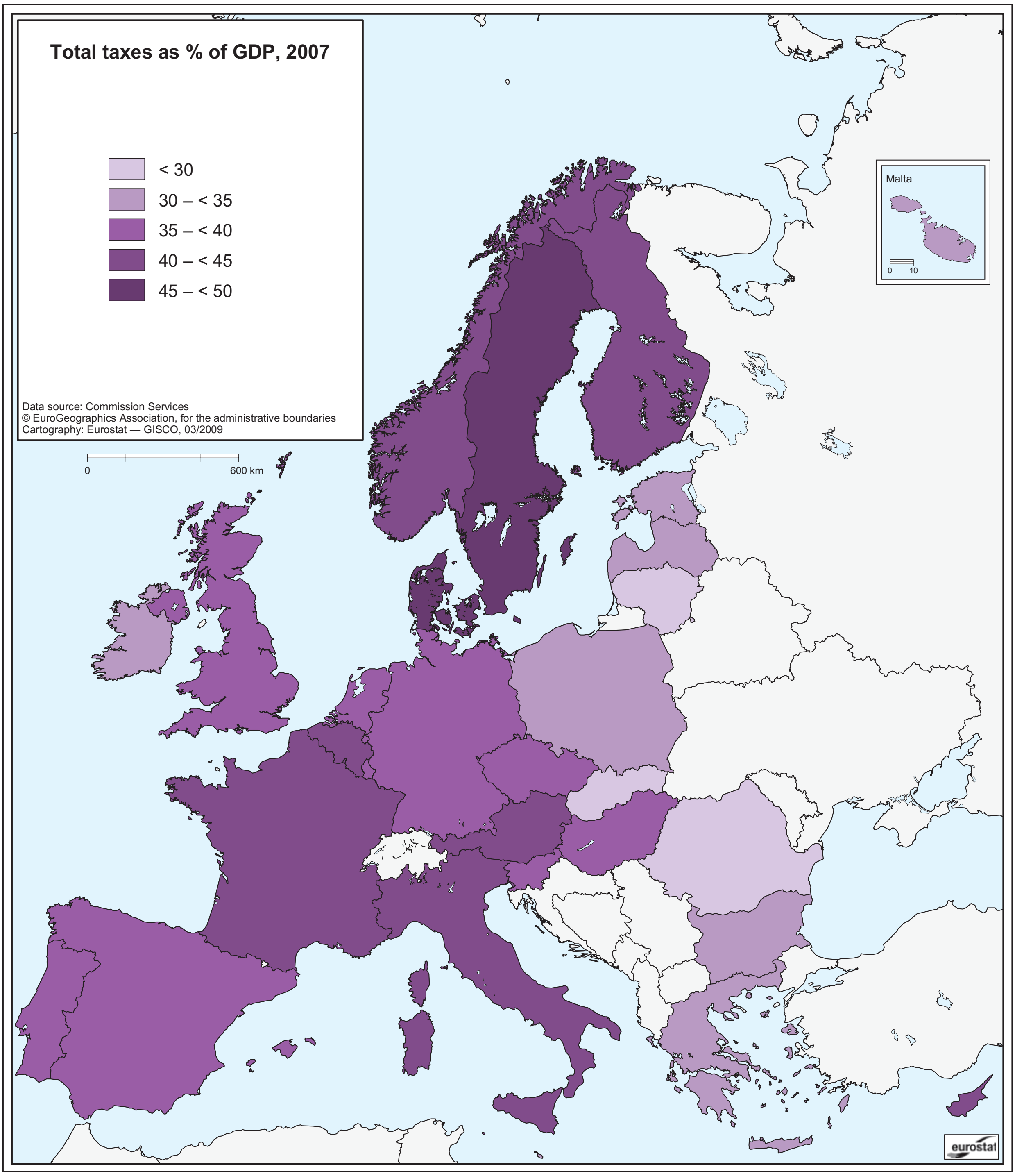
Only in the later 1990s did a number of countries take advantage of buoyant tax revenues to reduce the tax burden, through cuts in the personal income tax, social contributions, and also in the corporate income tax. However, the overall tax burden decreased only from 2000. One reason why the tax cuts were not immediately apparent in the figures is that the economic upswing of the late 1990s boosted the measured overall tax burden, even while substantial cuts in statutory tax rates were being implemented. For instance, strong economic growth may have moved taxpayers into higher nominal income tax brackets (bracket creep) in some Member States. In addition, during the expansionary phase between 1995 and 2000, many companies moved from a loss-making to a profit-making position; initially, carry-overs of losses from previous years cushion the increase, but as these run out, companies may face a rapidly increasing corporate income tax bill, an effect that may have been at play in those years. A clear decline in tax-to-GDP ratios is indeed only visible in the figures between 2001 and 2002. However,

5) A discussion of the factors behind the expansion of the public economy in the earlier years of that period can be found in Cameron (1978).

especially in 2002, the effects of tax cuts have probably been amplified by the economic slowdown and the action of similar mechanisms (in reverse) as those described above. Overall, despite a trend towards lower tax rates, particularly in the corporate income tax, the successive increases in the tax-to-GDP ratio recorded in the years after 2004 suggest that, despite the rhetoric, in the majority of countries there is a limited appetite for a radical reduction in the overall tax burden. Indeed, the most aggressive tax cuts took place in the Central and Eastern European new Member States in the 1990s, when the need to restructure these economies was particularly stringent; in the old Member States, the tax burden, net of cyclical effects, was not reduced significantly.

In the medium and long run, it is the development of expenditure that drives the tax ratio, particularly in euro area countries where the general government deficit is normally subject to strict limits. The autumn 2008 EU Commission forecasts project an increase by over a point of GDP in EU general government expenditure from 2007 to 2010 (in the weighted average). The forecast for the euro area shows a slightly weaker increase in expenditure (+ 0.8 % of GDP until 2010). The response to the global financial crisis, which has involved throughout Europe recourse to extraordinary expenditure programmes and an increase in the projected general government deficit, will probably make it even more difficult in the future to reduce the tax burden and yet ensure budgetary stability.

Map I-1 Distribution of total tax burden



Wide disparities in tax levels across Member States

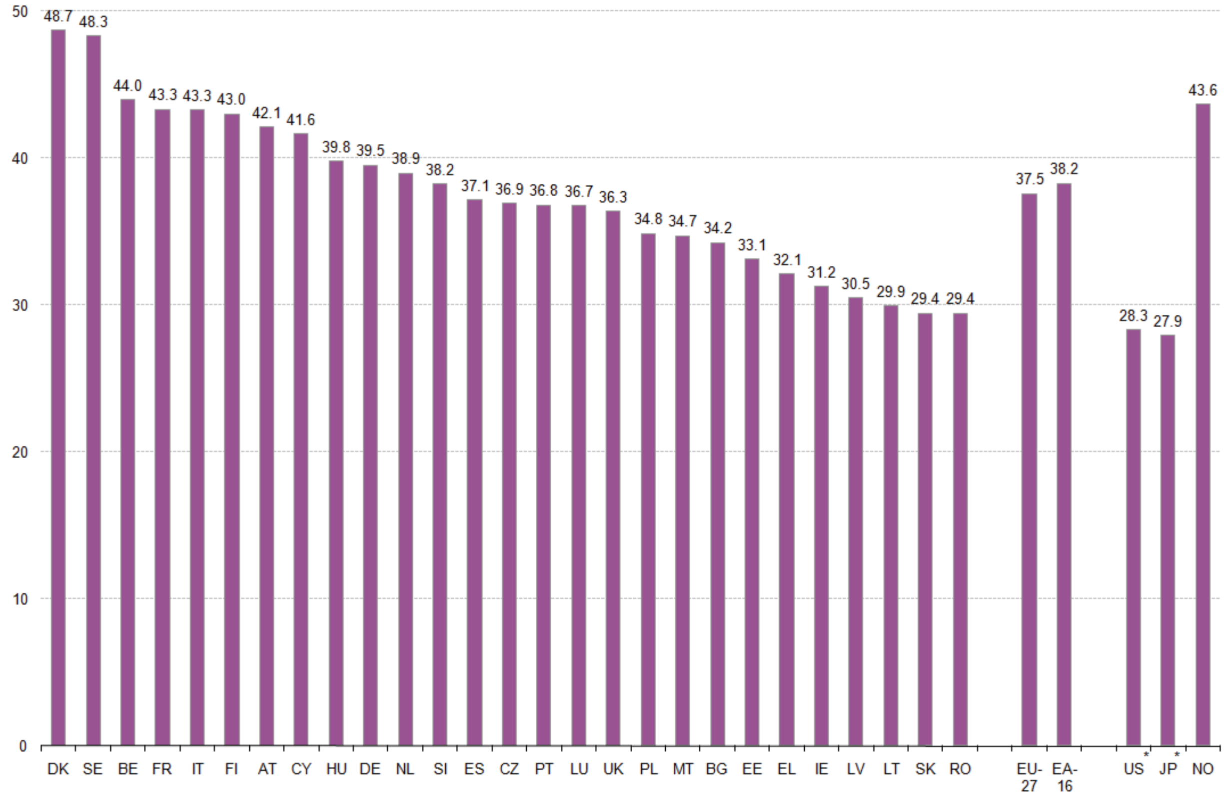
As illustrated by Graph I-2, there are wide differences in tax levels across the Union. These differences not only reflect social policy choices such as public or private provision of services, e.g. old-age and health risk protection, but also technical factors: some Member States provide social or economic assistance via tax reductions rather than direct government spending, while social transfers are exempted from taxes and social contributions in some Member States but not in others[6)]; both of these choices affect the level of the tax-to-GDP ratios. As can be seen in Map I-1, there are two groups of high-tax countries, the Nordics (i.e. Denmark, Sweden and Finland), and a cluster of four Member States towards the centre of the EU, namely Belgium, France, Italy and Austria, all of which had a tax ratio in excess of 40 % in 2007. With the exception of the Nordic Member States and Cyprus (whose tax rate was well below average just a few years ago), the geographically more peripheral countries tend to show lower tax ratios, particularly in Eastern Europe.

The wide variety of tax ratios in the Union is not new. Even before the 2004 enlargement, the EU included a number of Member States with tax ratios close to the 50 % mark, such as the Scandinavian countries, but also several low tax Member States, such as Ireland, Greece, Spain and Portugal. However, given the generally lower tax ratios in the new Member States, the 2004 and 2007 enlargements resulted in a significant decline in the EU mean value; this is apparent in Graph I-2 where the new Member States concentrate on the right side. Indeed, the total tax-to-GDP ratio of the new Member States is almost six percentage points lower than the average of the former EU-15. The range of variation within the Union also increased as first the Baltic Republics and then Romania had levels of taxation well below the previous minimum, although in the years since 2004 the dispersion has decreased as the 12 newer members have seen their tax ratios increase more than the old EU-15. This, together with the expansion of the euro area to a growing number of new Member States, has had the result that the tax ratio in the euro area is no longer significantly higher than that of the EU as a whole (38.2 % v. 37.5 % of GDP).

There are substantial differences in the total tax burden not only between the old and the new Member States but also amongst the latter. One may distinguish two groups of countries, a smaller one composed of three countries (Cyprus, Hungary and Slovenia) with tax levels exceeding the EU-27 average (37.5 %) and the remaining new Member States with lower tax ratios: from the Czech Republic (36.9 %, less than one percentage point below the average) to Romania (29.4 %, i.e. 8.6 percentage points below the average). Graph I-2 shows the tax-to-GDP ratios in more detail for the EU Member States and some other countries.

6) Countries with a relatively high tax-to-GDP ratio often impose higher taxes on social transfers, perhaps because this is more congruent with pure horizontal equity considerations. Adema (2005) estimated that in 2001 taxes and social contributions on public transfers exceeded 2 % of GDP in Denmark, Sweden, Finland, Austria and the Netherlands, while they accounted for only 0.2-0.3 % of GDP in Ireland and the United Kingdom. In Denmark and Sweden, where the revenue from taxes on benefits is highest, the amounts raised are sufficient to finance one quarter of social spending.

Graph I-2 Overall tax-to-GDP ratio (incl. SSC) in the EU, US, Japan, and Norway
2007, in %



Source: Commission services for the EU countries and NO, OECD for the US and Japan. Data for Japan refer to 2006. Figures for US are provisional (OECD 2008b). EU: arithmetic averages

Development of the tax ratio excluding social contributions

Looking at the data excluding SSCs, the most striking changes in the country ranking are, of course, visible for some countries, such as the Czech Republic, Germany, or France, where the level of social contributions is highest (Annex A Table Tot_G: Total Taxes (excluding SSC)). The former two in particular rank much lower in terms of the tax level if SSCs are excluded (respectively at the 24th and 19th place in the EU). Compared with the ranking including social contributions, the picture changes more at the top than in the bottom half, where the least taxed countries remain more or less the same. One old Member State, Greece, becomes one of the least taxing countries in the EU (third lowest place). It is also noteworthy that the general increase in the tax ratio since 2000 has taken place more clearly at the level of taxes in a narrow sense (i.e. excluding SSCs), probably owing to the fact that several countries have introduced reforms of their social security systems.

At Union level, tax ratio on the increase since 2004

As a result of the pick up in revenues after 2004, the EU average tax-to-GDP ratio is higher in 2007 than in our reference year 2000, both in the simple arithmetic and in the weighted average. There are nevertheless a few cases of significant reductions. The most striking one is Slovakia, almost half of whose extraordinary 1995–2007 reduction in the tax burden, i.e. 4.7 percentage points of GDP, took place after 2000. Finland and Sweden, too, though remaining high-tax countries, have cut the tax burden by nearly the same amount (4.2 and 3.5 percentage points of GDP respectively). At the other extreme, the increase in revenue in Cyprus stands out for its size (11.6 % of GDP, of which almost half in 2007 alone) while another large increase, 6.5 % of GDP, took place in another Mediterranean country, Malta. In Spain and the Czech Republic, too, the increases were relatively marked at over 3 % of GDP from 2000 to 2007.

Graph I-3 charts, for every country, the changes in the tax-to-GDP ratios between 2000 and 2007 in percentage points of GDP, in comparison with their starting point in the base year 2000. The main purpose of the graph is to show to what extent countries starting with a higher than average tax ratio tend to reduce it over time.

The top half of the graph shows which Member States have seen their overall tax ratio increase since 2000, while the bottom half shows what countries reduced it. The right-left dimension of the graph instead identifies the starting point at the beginning of the decade compared with the 2000 average; that is, countries that at the beginning of the period displayed higher-than-average total tax ratios are in the right half and vice versa.

Several facts are highlighted by this graph:

- The graph shows a broad, although not very marked, tendency for convergence to the average. This can be most intuitively seen from the distribution of the data points in the four quadrants. The bottom right and the top left quadrant show respectively which countries that were high tax in 2000 have tended to reduce their tax ratio, and which low-tax countries have tended to increase the ratio; the two quadrants together show what Member States moved towards the average. In other words, the north-west to south-east axis represents convergence. Nineteen Member States out of 27 are located along this axis. This is confirmed by the convergence indicators, which show a similar picture (see Table Tot_G in Annex A).

- This convergence, however, took place more often in the sense that low-tax countries have increased their tax ratio (the top left quadrant, containing 11 cases) than in the case of high-tax countries cutting their tax ratios (the bottom right quadrant includes eight countries).

- Slightly more countries have reduced their tax ratios (15) than increased it (12); in the period under consideration, the arithmetic average of the tax ratio went up because of very large increases in Malta and Cyprus, without which the ratio would have declined.

- If one takes the GDP of the Member States into account and uses the weighted average, the result is that the overall tax ratio has declined in the EU since 2000. It should be considered, however, that 1999 represented an all-time peak in tax levels, so the 2000 benchmark is not a stringent one. Indeed, if the benchmark were 2001 instead of 2000, the comparison would show an increase not only in the arithmetic but also in the weighted average.

- Only one high-tax Member State saw the tax ratio increase further from 2000 levels —Italy; in contrast, seven countries who were below average in 2000 reduced their overall tax ratio further — although only very marginally in three cases.

- More below average Member States have increased their tax ratio than reduced it (11 v. 7, three of which only very marginally).

- Low-tax countries tend to display large adjustments in either direction, upwards or downwards, whereas above the average the picture appears more static.

- Four Member States have shown much larger variation than the others: Cyprus and Malta upwards, as already mentioned, and Slovakia and Finland downwards. The increases in Cyprus and Malta amounted to respectively 11.6 and 6.5 percentage points of GDP, albeit from a very low base as these Member States started of around 30 % in 2000. Following the substantial 2007 jump, Cyprus' tax ratio is now the eighth highest in the EU at 41.6 %, whereas Malta's (34.7 %) still ranks quite low (19th place).

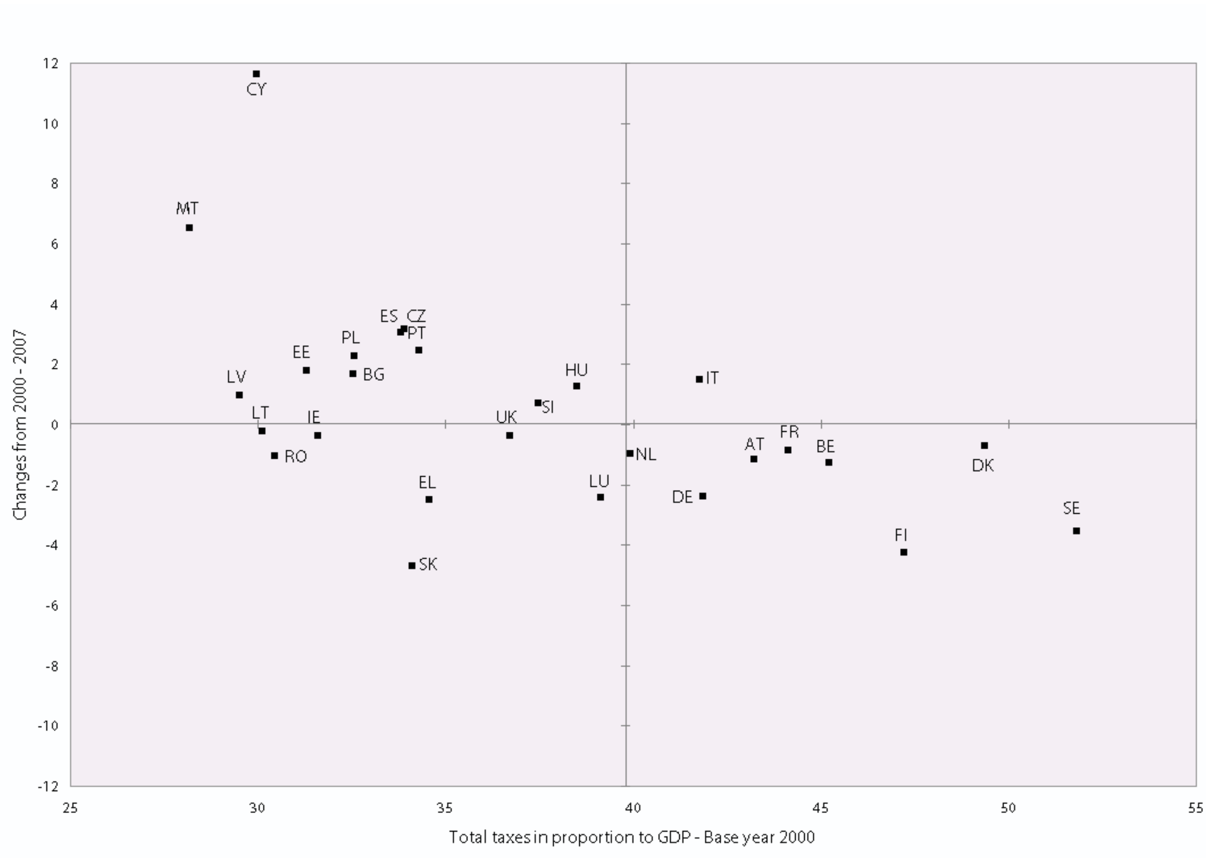
- In Slovakia the tax ratio, which was already low in 2000, has fallen by a further 4.7 points of GDP since then; the year 2006 in fact saw another strong decline, from 31.5 % to 29.4 % of GDP, while the following year no change was recorded. Overall, over the entire period for which data are available (1995–2007), Slovakia is the

Member State that has carried out the most profound restructuring of its tax system, with the tax ratio declining by over one quarter. The country thus changed its ranking significantly, from being essentially in line with the old Member States' average in 1995 at 40.3 % of GDP, to having the second lowest ratio in the EU-27 in 2007.

- Finland stands out for its substantial reduction in the tax ratio, which has fallen steadily by about one tenth since its 2000 peak. Sweden, too, reduced its tax ratio significantly (3.5 percentage points of GDP), although from a very high level (51.8 % of GDP, the highest on record).

Graph I-3 Level in 2000 and change of tax-to-GDP ratio until 2007

in %



Source: Commission services

2. REVENUE STRUCTURE BY TYPE OF TAX

The structure of tax revenues by major type of taxes (i.e. direct taxes, indirect taxes and social contributions) is shown in Graph I-4.

Graph I-4 Structure of tax revenues by major type of taxes

2007, % of the total tax burden

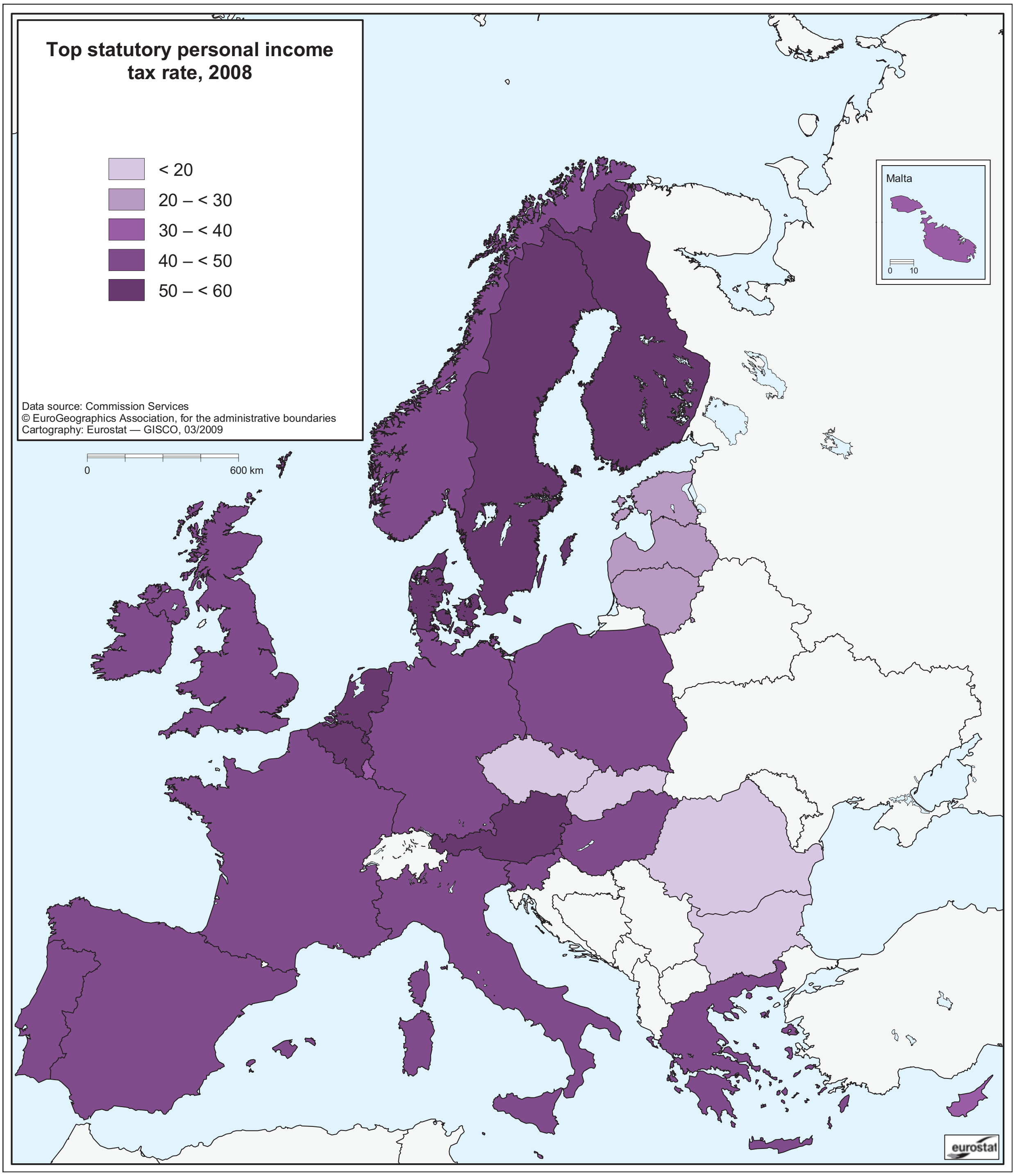
Source: Commission services

Generally, the new Member States have a different structure compared to the old Member States; in particular while most old Member States raise roughly equal shares of revenues from direct taxes, indirect taxes, and social contributions, the new Member states often display a substantially lower share of direct taxes in the total. The lowest shares of direct taxes are recorded in Slovakia (only 20.8 % of the total), Bulgaria (20.9 %) and Romania (23.0 %); in Poland the share of direct taxes shrank by one third between 1995 and 2004 but has now increased again and currently stands at 24.9 %. One of the reasons for the low direct tax revenue can be found in the generally more moderate tax rates applied in the new Member States for corporate tax and personal income tax (see Maps I-2 and I-3). Several of these countries have adopted flat-rate systems which typically induce a stronger reduction in the rates of direct taxes than in those for indirect taxes.

The low share of direct taxes in the new Member States is counterbalanced by higher shares of both indirect taxes and social contributions in total tax revenues. The highest shares of indirect taxes are indeed found in Bulgaria, where the share is well over half of revenue, and Cyprus, where it lies close to the 50 % mark. As for social contributions, the Czech Republic stands out with its 44.2 % share, but Slovakia, Germany and France, too, are characterised by a rather high level.

Also among the old Member States (EU-15) there are some noticeable differences. The Nordic countries as well as the United Kingdom and Ireland have relatively high shares of direct taxes in total tax revenues. In Denmark and, to a lesser extent, also in Ireland, Malta and the United Kingdom the shares of social contributions to total tax revenues are low. There is a specific reason for the extremely low share of social contributions in Denmark: most welfare spending is financed out of general taxation. This requires high direct tax levels and indeed the share of direct taxation to total tax revenues in Denmark is by far the highest in the Union. Among the old Member States, Germany's system represents in a sense the opposite of Denmark's; Germany shows the highest share of social contributions in the total tax revenues, while its share of direct tax revenues on the total is among the lowest in the EU-15.

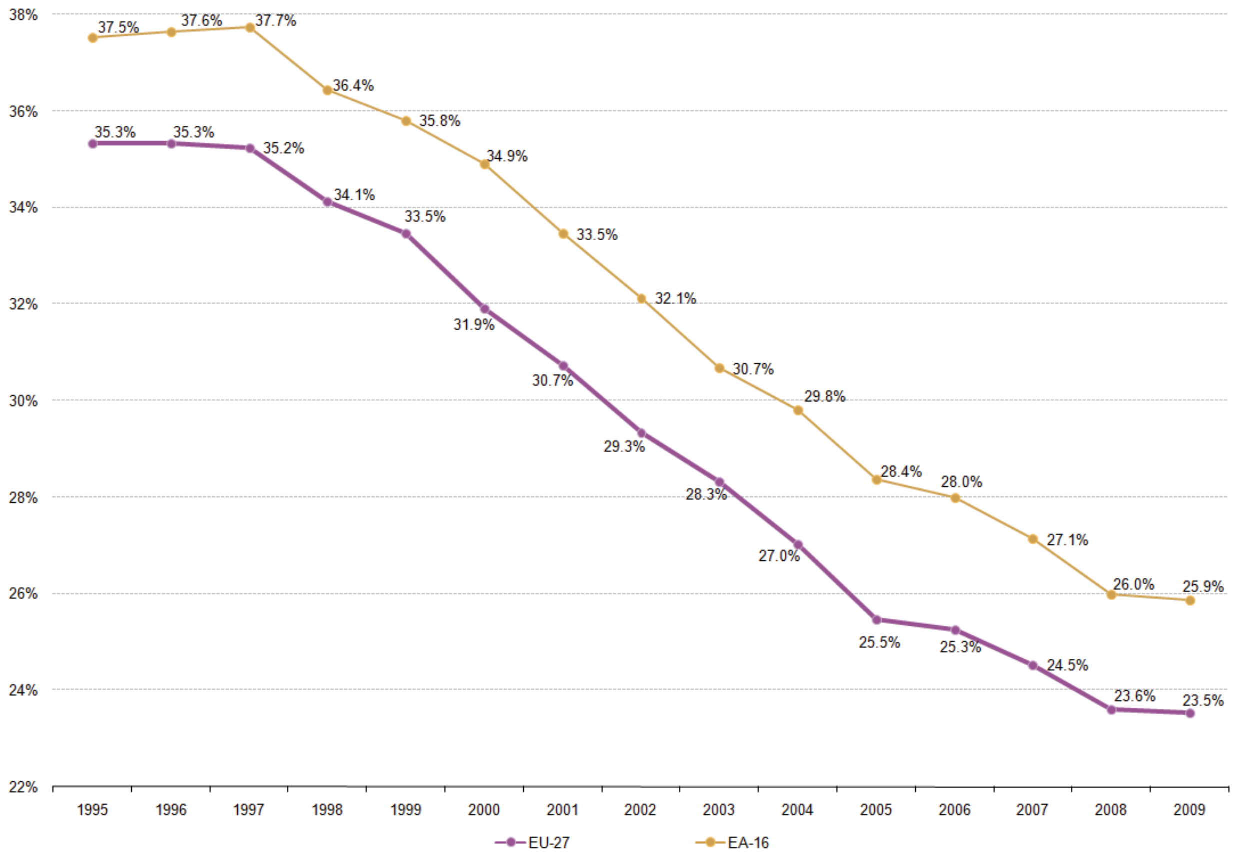
Map I-2 **Distribution of top personal tax rates**



Map I-2 shows the geographical distribution of top PIT rates in the EU. The map highlights the fact that Western European Member States generally tend to adopt higher top rates than Eastern European Member States; the highest top rates are found in a band running from Belgium to Finland across the Netherlands, Denmark and Sweden, with the addition of Austria. A more detailed discussion of PIT rates, including their development over time, can be found in Part II.2 of this report.

Graph I-5 Development of adjusted statutory tax rate on corporate income

EU-27 and euro area averages; in %



Note: Methodological notes: see note to Table II-4.1.

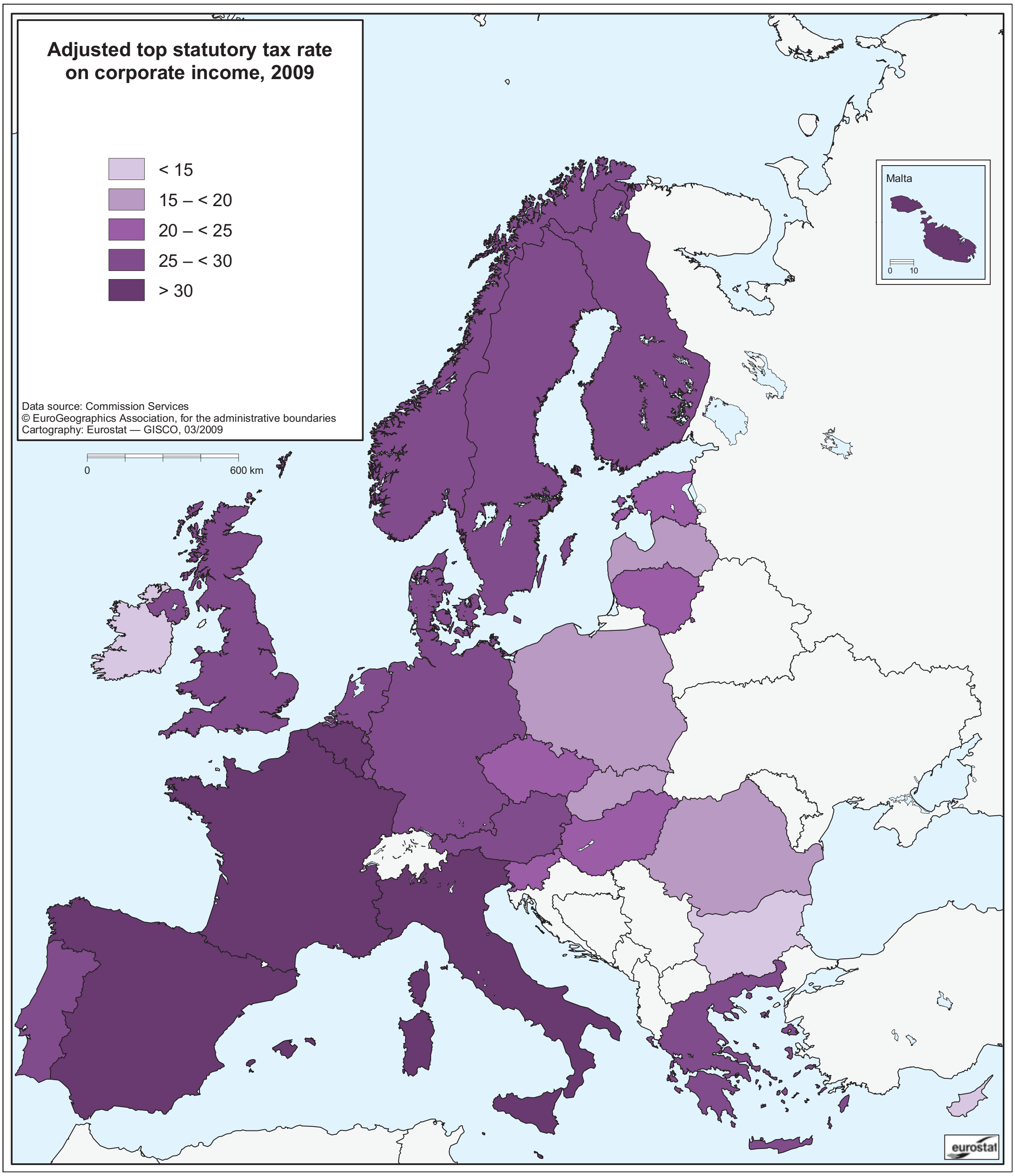
Source: Commission services

Since the end of the 1990s there has been a strong trend towards lower corporate tax rates (see Graph I-5). Tax cuts were often coupled with limitations in special tax regimes, or their outright abolition. This trend started in the new Member States, but the old Member States followed suit and reduced their statutory corporate tax rates substantially[7)]. Overall all Member States except Malta, Hungary and Finland show lower statutory rates in 2009 than in 1995. The downward trend is ongoing: in 10 countries rate cuts were introduced in 2008 or 2009 (Czech Republic, Germany, Estonia, Spain, Italy, Lithuania, Luxembourg, Slovenia, Sweden, United Kingdom[8)], see Table II.4-1 in Part II.4). The average corporate tax rate in the EU-27 is now 23.5 % (see Graph I-5), while in the euro area, comprising mostly old Member States, the average is around two and a half percentage points higher.

7) See European Commission (2006).

8) In Luxembourg the national tax was reduced. In Lithuania the decline in 2008 is due to the expiry of a temporary tax; in 2009 however, it increased by five percentage points

Map I-3 Distribution of corporate tax rates



Some countries have implemented changes that go beyond simple rate cuts. Estonia is a good example of this development. The country moved away from the classical corporation tax system: despite the low CIT rate (26 %) in force since 1994, since the beginning of 2000 Estonia decided to levy no corporate tax on retained profits, so that only distributed profits are taxed. The rate was later cut to 21 %. A similar system had been introduced also in Lithuania, but was later abolished. Another example is Belgium, where the introduction of the notional interest system had the effect of reducing the tax burden fairly significantly, even though it does not translate to a change in the tax rate.

Map I-3 shows the distribution of current CIT rate levels; again, an east-west dimension exists, with south-western countries and the Nordics applying higher rates than the others, but the transition from higher to lower rates is less regular and predictable, highlighting the different policies being pursued in this domain. In addition, a comparison between Map I-2 and Map I-3 shows that CIT rates now frequently lie below top PIT rates, a situation which can potentially lead to 'corporatisation' [9] driven by tax purposes. A more detailed discussion of CIT rates and their recent trends is supplied in Part II.4 of this report.

Trends in PIT and CIT revenue by country

The latest data show a partial reversal of the reduction of personal income tax revenue achieved in the early years of the 21st century. Revenues have, in fact, been picking up since 2005. Compared with the year 2000, only one country, Sweden, reduced PIT revenue by more than 2 % of GDP. In evaluating this fact, however, it has to be taken into account that both 2006 and 2007 were characterised by high GDP growth, which, in the absence of tax cuts, boost PIT revenue through various channels, in particular job creation[10]. The highest increase was recorded for Cyprus (2.7 percentage points of GDP, of which 1.7 in 2007 alone).

As for corporate income taxes, it is striking that the rather strong decline in the corporate income tax rates has not resulted, so far, in marked reductions in tax revenue; indeed, in 19 out of 27 EU countries CIT revenues, as a share of GDP, increased since 2000. The major exceptions to this trend were Finland and Luxembourg, were CIT revenues declined by 2.0 % and 1.5 % of GDP compared to 2000, although in Finland's case the 2000 figure represented an outlier. This cannot easily be attributed to cyclical factors, as real growth in the EU was higher in 2000 than in 2007. Hence, it seems likely that base widening, an increase in the degree of corporatisation of the economy, or other factors have played a role. The strongest increase in CIT revenue was recorded in Malta, where CIT revenue has nearly tripled in the last decade. Malta did not cut CIT rates in that period.

Changes in composition by main tax type

Graph I-6 decomposes the change in the overall tax burden into (positive or negative) changes of its three major components; the black line shows the change in the overall tax-to-GDP ratio for all the countries. The graph highlights that, in the period under consideration, only some Member States shifted taxation clearly from one type of taxes to another; that increases or decreases of revenues are commonly shared out amongst all three categories. Examples of significant changes in the tax mix are Bulgaria, which shifted the burden of taxation from social contributions to indirect taxes, Latvia and Slovenia, where direct tax increases more than compensated for decreases in, respectively, social contributions and indirect taxes, and Greece, where forceful cuts in both direct and indirect taxes were partly offset by increases in social contributions. It is nevertheless debatable to what extent the shifts in the tax mix were a deliberate result and not a by-product of separate policy decisions. An example of a deliberate action was the 2007 reform in Germany, when part of the revenue from a VAT increase was used to finance a cut in social security contributions; however, in revenue terms the effects of this measure do not stand out clearly when comparing the 2007 tax mix with its 2000 equivalent.

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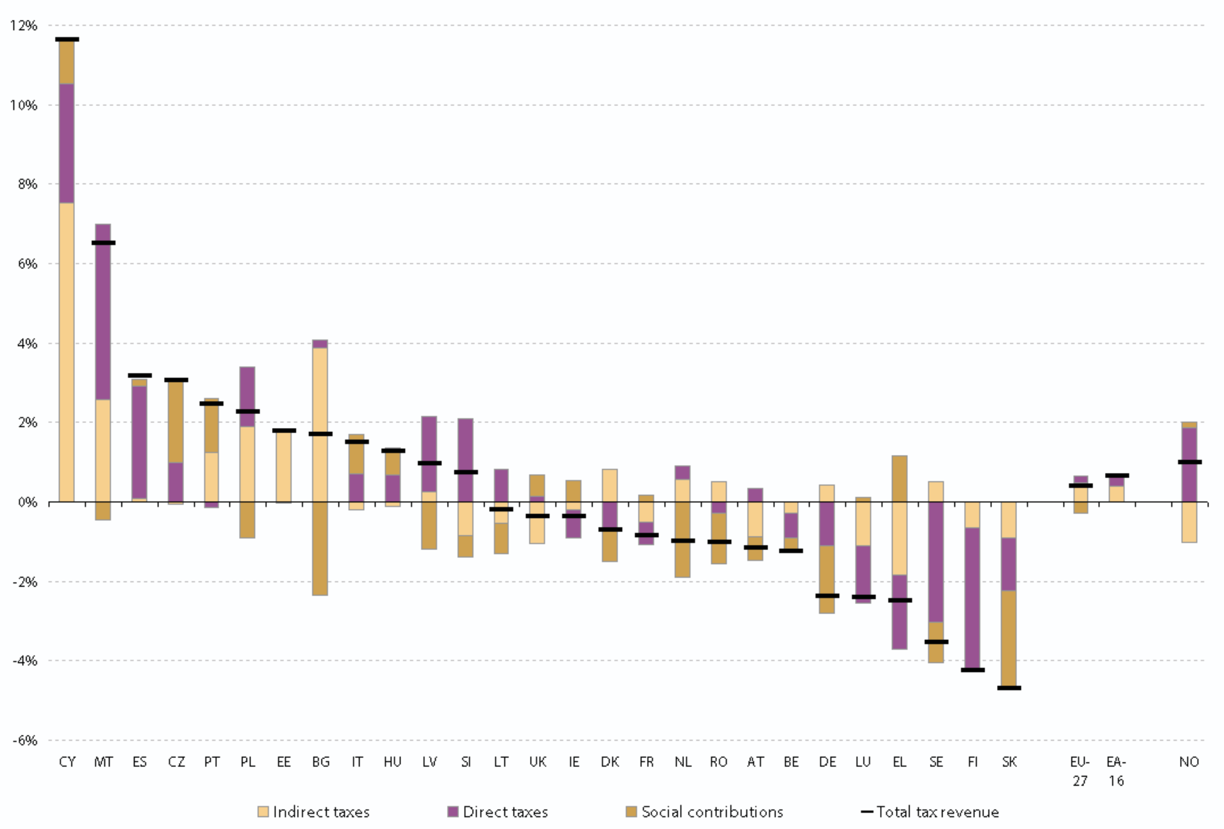
9) Corporatisation is the phenomenon by which individuals set up corporations and channel their income through them in order to be taxed under the corporate regime instead of the personal income tax. The result is then that CIT revenue is 'artificially' inflated at the expense of PIT revenue. If a group of enterprises is constituted of entities taxed both under the PIT and the CIT, the same effect may result from a shifting of profits towards the corporate sector, even in the absence of changes in the legal form of any enterprise. For a discussion of the extent of corporatisation in the EU, see De Mooij and Nicodème (2008).

10) EU employment grew by 1.5 % and 1.7 % in 2006 and 2007 respectively, more than double the rate in the previous two years.

Graph I-6 Evolution by major type of taxes
2000-2007, differences in % of GDP



Source: Commission services

3. REVENUE STRUCTURE BY LEVEL OF GOVERNMENT

Graph I-7 displays a classification of aggregate tax revenue (including social contributions) by the receiving level of government. In the ESA95 framework of national accounts, taxes are classified according to four different units of government that may operate within a country and to the institutions of the European Union. The combination of the different government levels operating within a Member State is called the general government, and may include:

- Central (or federal or national) government, including all administrative departments and central agencies of the State whose competence extends normally over the whole economic territory, except for the administration of the social security funds;
- State (or regional) government, when relevant within a Member State, which are separate institutional units exercising some of the functions of government at a level below that of central government and above that at local level, except for the administration of social security funds;
- Local (or municipal) government, whose competence extends to only a local part of the economic territory, apart from local agencies or social security funds;
- Social security funds, including all central, state and local institutional units whose principal activity is to provide social benefits.

The figures shown in Graph I-7 represent 'ultimately received' tax revenues. This means that the shares displayed under state and local governments do not only include 'own' taxes of government sub-sectors, but mostly also the relevant part of the tax revenue that is actually 'shared' between the different levels of the general government, even in cases where a government sub-sector has practically no power to vary the rate or the base of those particular taxes[11]. Furthermore, these figures exclude grants between different levels of government[12]. The taxes received by the institutions of the European Union do not only include taxes paid directly to them (i.e. the ECSC levy on mining and iron and steel producing enterprises paid by resident producer units), but also taxes collected by general governments on behalf of the EU, such as receipts from the Common Agricultural Policy (CAP), customs duties on imports from third countries and a share in VAT revenues.

In 2007, in the EU about 59 % of the 'ultimately received' aggregate tax revenue (including social contributions) was claimed by the central or federal government, roughly 29 % accrued to the social security funds, and around 11 % to local government. Less than 1 % of tax revenue is paid to the institutions of the European Union. There are considerable differences in structure from one Member State to another; for instance, some Member States are federal or grant regions a very high degree of fiscal autonomy (Belgium, Germany, Austria, and Spain). In the United Kingdom and Malta, the social security system is not separate from the central government level from an accounting viewpoint. The share of sub-federal revenue (defined as municipalities plus the state level where it exists) varies from 0.7 % in Greece to 32.6 % in Sweden. Not only Sweden, but also Germany, Spain, and Belgium show high shares of total taxes received by the non-central authorities. At the other end, this share is noticeably small, besides Greece, in Cyprus (1.3 %), Ireland (2.2 %) and Bulgaria (2.7 %), as well as in Malta, where local government does not receive directly any tax funds. Concerning social security funds, the highest shares in the EU are reported by France, where the share exceeds 50 %, and to a lesser extent Slovakia, Belgium and Germany.

Significant increase in the shares of tax revenues of state and local governments occurred in Spain, Romania, Slovakia and Italy (see Tables B.2_T and B.3_T in Annex A). In Spain, an increase in the share of state tax revenue is first visible from 1997 onwards. This mainly reflects the introduction of the new five-year (1997–2001) arrangement for sharing tax revenues between the autonomous regions. In 2002, Spain witnessed a substantial increase of the share collected by the communidades autónomas of more than 10 % of total taxes, due to the new financing agreement between the central government and the autonomous regions; the share rose further in the following period as the reform was implemented. Romania and Slovakia too saw a marked increase in local government revenue, whereas in Lithuania, Bulgaria and Denmark the opposite took place. In Italy, an increase in the share of local tax revenues is visible from 1998 onwards, due to the reform that, among other important changes, introduced the IRAP (Regional Tax on Productive Activities), and decreased the dependence of the local governments on grants from the central government.

11) Additional statistical information was used for the classification of taxes by ultimately receiving government sub-sectors for Belgium.

12) It should be mentioned, however, that the distinction between shared taxes and grants is somewhat fuzzy; the data could be influenced by small institutional difference between countries that do not have real significance.

Graph I-7 Revenue structure by level of government

2007, in % of the total tax burden

Source: Commission services

The data shown in Graph I-7 indicate substantial differences in the structures of the taxation systems across the Union. These data give, however, little insight into the degree of tax autonomy of sub-central levels of government as such. Generally speaking, taxation involves: (i) setting a tax base, (ii) defining statutory tax rates, (iii) collecting the tax, and (iv) attributing its revenues. At each stage, one or several levels of government may be involved. Furthermore, the degree of fiscal autonomy may vary. For example, in the case of 'own' taxes, the central or sub-central government unit is responsible for all phases of the tax-raising process. When the tax is 'joint', the central government is usually solely responsible for: (i) setting the base, and (ii) collecting the tax, but operates together with the regions in (ii) setting the rates. The term 'shared tax' generally means that the central government is responsible for: (i) setting the base, (ii) defining the tax rates, and also for (iii) collecting the tax[13)], but the sub-central governments are automatically and unconditionally entitled to a percentage of the tax revenue collected or arising in their territory. Other modalities may also exist. In practice, the fiscal organisation of government — including the fiscal relations, the constitutional arrangements and the tax raising process — is quite complex, and varies considerably from one Member State to another. An OECD study (2006c) complements tax revenue statistics by offering a typology of the 'taxing powers' of government sub-sectors, and by applying this typology to tax revenue statistics. The study shows important differences as regards the tax autonomy of the *Länder* and Regions within the group of federal countries in the Union (i.e. Germany, Austria, Belgium and Spain[14)]. It also shows differences as regards the tax autonomy of local governments within the European Union.

13) Except in Germany, where the Länder collect the tax.

14) See also OECD (2002d) for the results of a study on this topic covering six of the EU's new Member States.

II

Taxation by economic function

Introduction

The tax-to-GDP ratio and the breakdown of tax revenues into standard categories such as direct taxes, indirect taxes and social contributions provide a first insight into cross-country differences in terms of tax levels and its composition in terms of tax type. This information is, however, already available from the National Statistical Offices. This publication additionally provides a broad classification of taxation in three economic functions - consumption, labour and capital. The report contains data on the absolute level of taxation by economic function and computes implicit tax rates or ITRs, i.e. average effective tax burden indicators[1)]; unlike simple measures of the tax revenue, these take into account the size of the potential tax base, which often differs substantially from one country to the other. The methodology utilised in this survey is discussed in detail in Annex B.

In addition, data on environmental taxation in the EU have also been computed for the purpose of this report. The definition of a tax as environmental is independent of its classification by economic function: any tax, be it on consumption, labour or capital, that has the effect of raising the cost of activities which harm the environment, is classified here as an environmental tax. Environmental taxes are subsumed under the classification by economic function because the use of the environment can be regarded as an additional production factor.

1) The term 'implicit tax rates' is used in order to distinguish the backward looking approach from forward looking average effective tax rates calculated on the basis of the tax code.

1

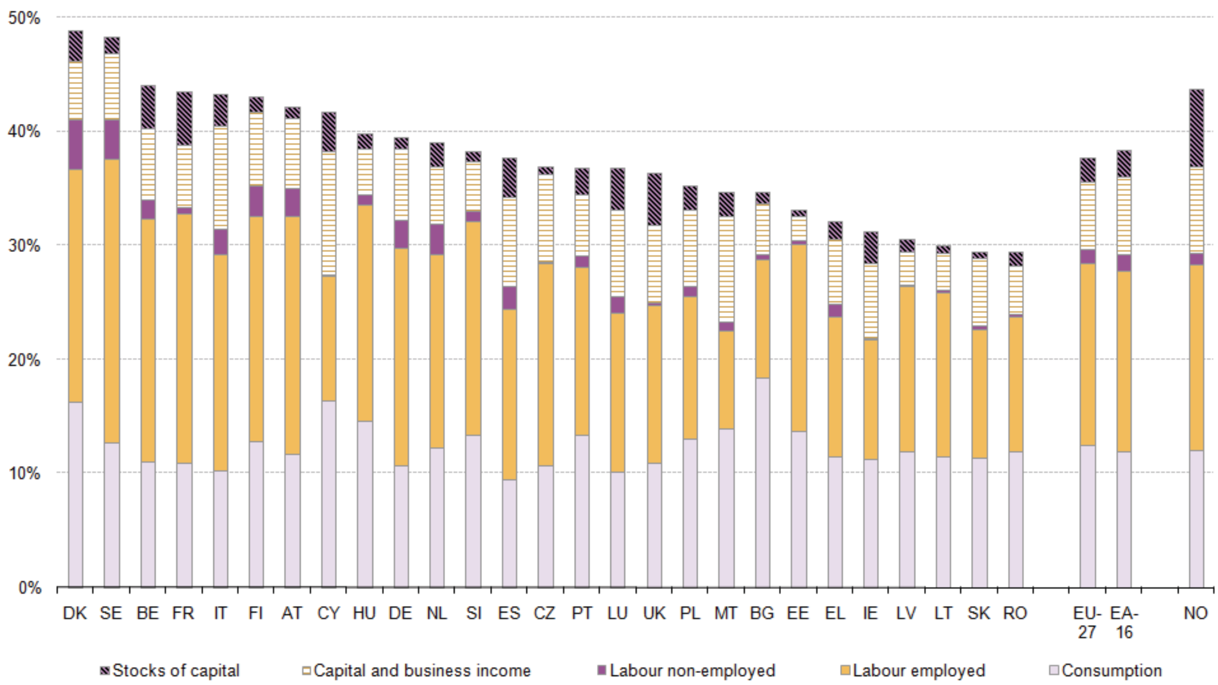
Distribution of the tax burden by economic function

1. Distribution of the tax burden by economic function

Breakdown of revenue by economic function: significant differences between Member States

Graph II-1.1 ranks Member States by overall tax burden and displays a breakdown of revenue by economic function for the year 2007. The graph shows quite a lot of variation both in terms of the overall level and in its composition. In particular, despite the fact that most indirect taxes are harmonised at EU level, there is substantial variation in the amount of revenues raised from consumption taxes. Even greater variation is visible in revenues from capital and business income, while some smaller revenue sources, such as taxation of stocks of capital/wealth and taxation of non-employed labour (essentially pensions and social security benefits) range from significant to negligible. Overall, the taxes levied on (employed) labour income, which are usually withheld at source (i.e. personal income tax levied on wages and salaries income plus social contributions), represent the most prominent source of revenue, contributing over 40 % of overall receipts on average, followed by consumption at roughly one third and then capital at just over one fifth.

Graph II-1.1 Distribution of the total tax burden by economic function
Taxes on labour (employed and non-employed), consumption and capital (capital and business income and stocks) 2007, in % of GDP



Source: Commission services

The three panels in Graph II-1.2 show the share of the revenue from the three different economic functions.

The results shown in the first panel, on the share of consumption taxes in overall revenues, are interesting in several respects; first, there is a clear outlier, Bulgaria, where the share of consumption taxes is more than 12 percentage points higher than in the second-ranking country, Estonia. Second, it is a distinctive feature of the new Member States to display a high reliance on consumption taxes: the first 10 positions in the ranking refer to countries that joined the Union in the last two enlargement rounds. Of the two remaining new Member States, Slovenia and the Czech Republic, only in the latter is the share of consumption taxes below the EU average.

Apart from the fact that generally lower capital taxation in these countries symmetrically tends to boost the share of consumption taxation, this distribution is also linked to structural factors, such as the fact that in the new Member States the energy intensity of the economy is generally higher (an important element of consumption taxes is represented by mineral oil duties) or to the fact that tobacco and alcohol taxes generally account for a greater share of total taxation there.

At the bottom end we find Italy and Spain, where VAT revenue is relatively low owing to exemptions and low standard rate (in the latter), and a group of countries with high overall taxation (France, Belgium, Sweden) where the low share from consumption taxes is mostly the mirror image of high labour taxation. Another interesting fact is that differences in the shares of consumption taxes between Member States have been growing quite markedly in the 2000-2006 period, a trend that reversed in 2007 but still kept the dispersion among the Member States larger compared to the one in 2000, as shown by divergence indicators (see Table C.1_T in Annex A). This seems related to the fact that those countries, where the share of consumption taxes is highest, have been increasing further their reliance on this type of taxes, while countries with low consumption taxes have for the most part seen revenue dwindle or stagnate[1)].

The second panel in Graph II-1.2 presents the level of labour taxes in overall tax revenue. The importance of labour taxes is highlighted by the fact that 15 of the EU Member States derive around half their revenue from labour taxes: 12 raise between 48 % and 53 % of the total, while Sweden, Austria and Germany obtain more than 54 %. The bottom half of the distribution is more dispersed, with Cyprus raising the least amount of financing from labour, a mere 26.4 % of the total.

Another interesting feature of this graph is the great variation in tax revenue from non-employed labour; this category refers to personal income tax and/or social contributions that are raised on old-age pension benefits and social benefits. Revenues vary markedly from country to country given widely different traditions in the taxation of benefits and transfers, some of which are frequently exempted from taxation. Denmark, Sweden, the Netherlands, Germany and Finland tend to raise a substantial amount of taxes on such benefits; given, however, that the granting of unemployment benefits is tightly linked to the labour market situation, the revenue raised from taxes on benefits are linked to the cycle and may therefore vary over time. In the other Member States the amount of tax raised on such benefits is generally lower, if not negligible. Countries with low taxation of employed labour usually tax the non-employed lightly or not at all[2)].

The bottom panel in Graph II-1.2 highlights the differences in the extent of capital taxation. The share of revenue yielded by capital taxes is large in Cyprus, Malta, the United Kingdom, Luxembourg, Spain, Ireland, Italy and Poland, where they contribute over one quarter of total taxes, and noticeably small in the Baltic Republics, Hungary, and Slovenia with less than one seventh. As for their composition, taxes raised on capital and business income are generally more important than taxes on stocks of capital/wealth; one important exception is France, where high taxes on wealth lead to broadly equal proportions between the two types. In the recently accessed Member States, these taxes by and large yield a lower share of revenue than in the EU-15; this might be linked, however, to a lower aggregate value and productivity of the capital stock.

1) In four of the five highest ranking countries, Bulgaria, Estonia, Romania and Cyprus, the share of consumption taxes has grown markedly since the beginning of the decade, possibly owing in part to the adaptation of their tax systems to the EU excise minima in a context where low general taxation levels lead naturally to a high share of consumption taxes in revenue. At the bottom end, Italy, France and Spain reduced their share further, while the share in Belgium remained largely unchanged.

2) It should be pointed out, however, that since the statistical identification of these taxes is rather difficult, such taxes may well be underestimated by the ratios presented here. Note also that often transfers or benefits are not taxed upon reception but previously; in those cases, the taxes levied cannot be identified as having been raised on transfers or benefits and are therefore, as a rule, booked as taxes on employed labour income.

Graph II-1.2 Distribution of the total tax burden by economic function
2007, in % of total tax burden

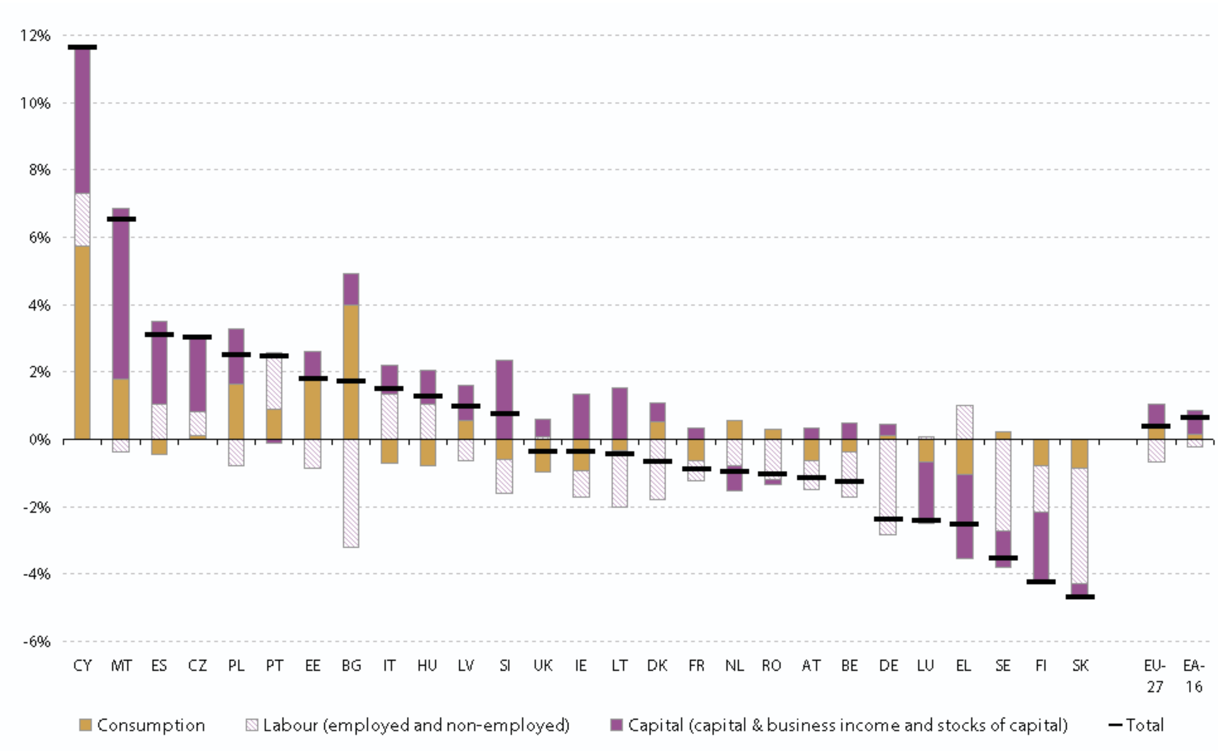
Source: Commission services

Additional details on the structures of the taxation systems by economic function in the individual Member States are given in the country chapters in Part III of this publication.

Breakdown of revenue by economic function: changes over time

The distribution of the overall tax burden by economic function has undergone some important changes since 2000, and the pattern is rather mixed across Member States (see Graph II-1.3; the black line represents the sum of the changes of the different components as % of GDP). The two most striking features of developments have been an across-the-board — partly cyclically induced — increase in capital taxes as a percentage of GDP to the highest levels since 2000 and a slight decline of labour taxes; labour taxes have indeed significantly increased only in seven Member States, while in 17 others they contributed in a non-negligible way to reducing overall taxation. In several cases the stabilisation or decline in labour taxes occurred after an initial increase up to 2002. Despite significant changes in many Member States, consumption taxes as % of GDP are, on average, at about the same level in 2007 as in 2000.

Graph II-1.3 Relative contribution of taxes on labour, capital and consumption to the change in the total tax-to-GDP ratio, by country
2000-2007, in % of GDP

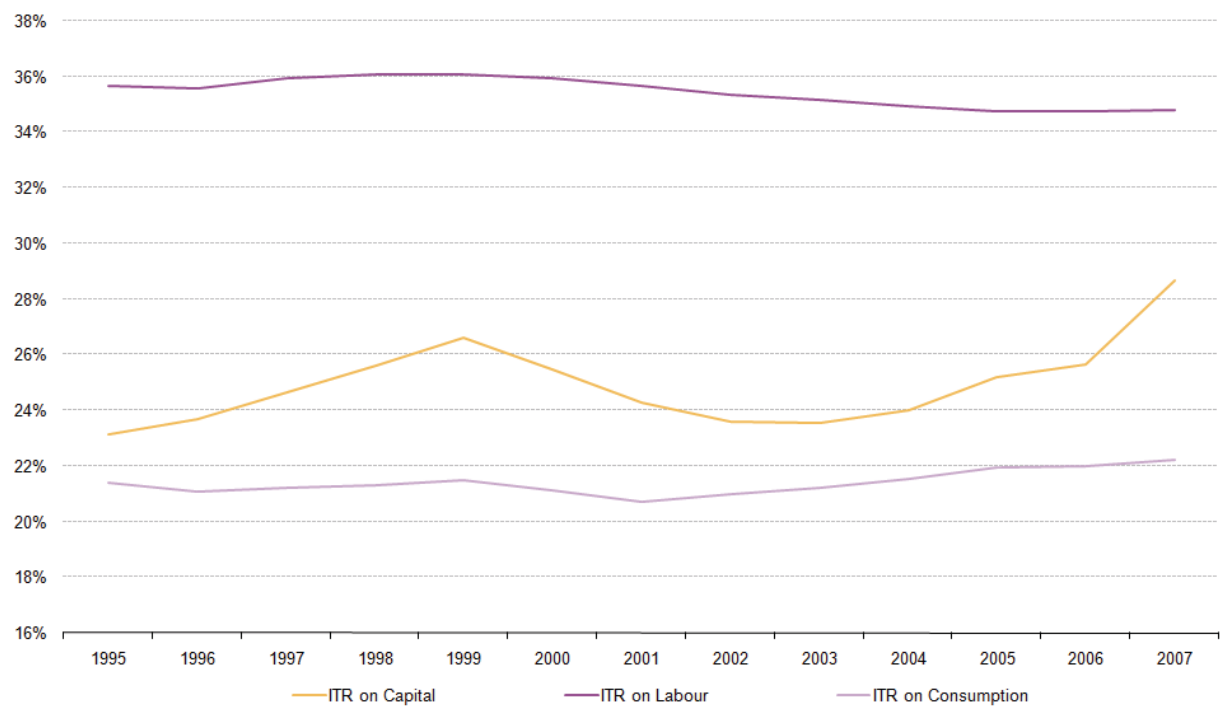


Source: Commission services

Overall trends in implicit tax rates

Graph II-1.4 displays the evolution of the three main implicit tax rates, on labour, on consumption and capital, between 1995 and 2007. These ITRs are commented in detail in the next chapters. They are here juxtaposed to highlight four main facts: first, that implicit tax rates on labour remain well above those for capital and consumption; second, that the decline in labour taxation stopped in 2005; third, that effective taxation of capital is on the increase; and finally, that since 2001 consumption taxation has been trending upwards slowly.

Graph II-1.4 Development of implicit tax rates
EU-25 average, 1995-2007, in %



Source: Commission services

2

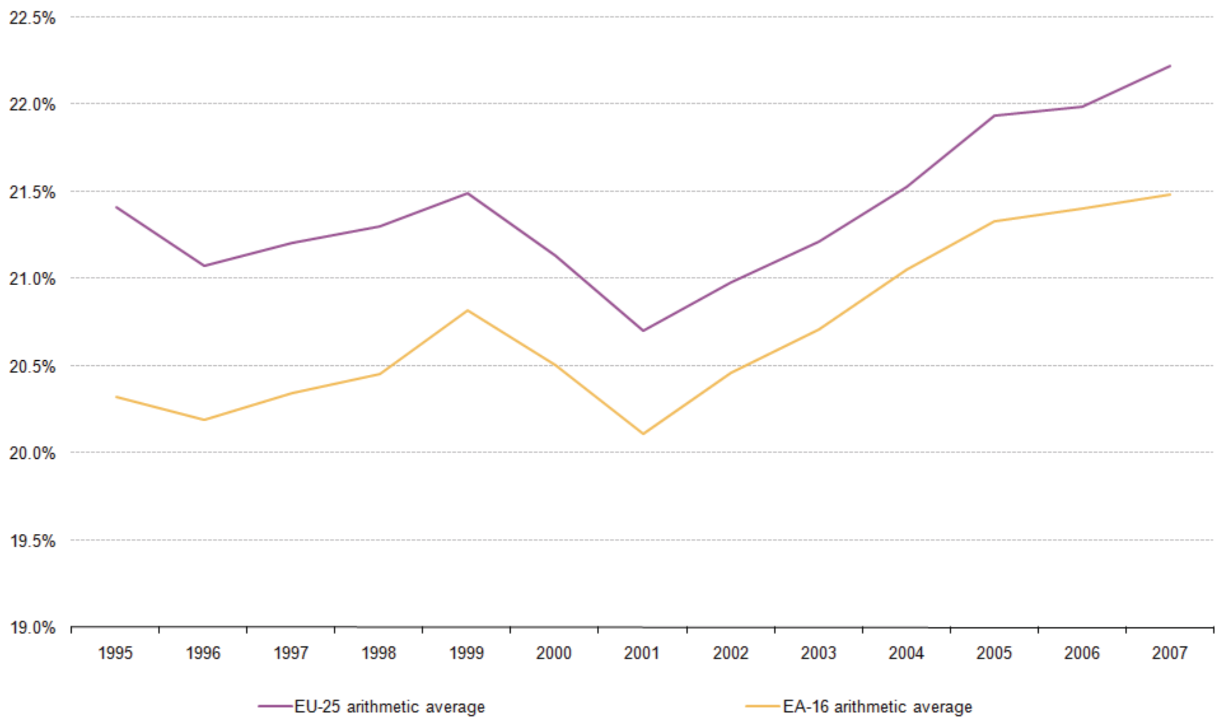
Trends in the implicit tax rate on consumption

2. Trends in the Implicit tax rate on Consumption

2.1. Tax burden on consumption increasing

Graph II-2.1 and Table II-2.1 show the trend development of the ITR on consumption in the period under consideration[1]. The ratio has experienced significant variation over time; a first rising phase, until 1999, was followed by a drop; in two years it fell by around three quarters of a percentage point. The decline at the turn of the century was not sufficient to offset the effects of the two periods of growth, so that over the entire period the ITR of consumption has climbed. Since 2001, the ratio has been increasing steadily every year to reach 22.2 % in 2007. Compared with 2000, the base year for this report, the evolution is broadly the same both for the euro area and for the EU-27; the increase of ITR on consumption is 1.3 percentage points for the EU-27 and 1.1 percentage points for the EA-16. The ITR on consumption is somewhat lower, on average, in the euro area than in the Union as a whole.

Graph II-2.1 Implicit tax rate on consumption
1995-2007



Source: Commission services

1) Previous editions of this report, based on the earlier ESA79 system of national accounts, reported broad stability in the implicit tax rate on consumption in the EU-15 from the early 1970s until the early 1990s.

Table II-2.1 Implicit tax rates on consumption in the Union
1995–2007, in %

														Difference	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1995-2007	2000-2007
BE	20.6	21.3	21.6	21.4	22.5	21.8	21.0	21.4	21.3	22.0	22.2	22.3	22.0	1.4	0.1
BG	-	-	-	-	17.6	19.7	18.9	18.7	20.6	23.2	24.4	25.5	25.4	-	5.8
CZ	22.1	21.2	19.4	18.6	19.7	19.4	18.9	19.3	19.6	21.8	22.2	21.1	21.4	-0.7	2.0
DK	30.5	31.6	31.9	32.7	33.7	33.4	33.5	33.7	33.3	33.3	33.9	34.0	33.7	3.2	0.3
DE	18.8	18.3	18.1	18.3	19.0	18.9	18.5	18.5	18.6	18.2	18.1	18.3	19.8	1.0	0.9
EE	21.3	19.8	20.5	18.6	17.9	19.8	19.9	20.0	19.9	19.8	22.2	23.4	24.4	3.1	4.6
IE	24.8	24.7	25.2	25.4	25.7	25.9	23.9	24.9	24.7	25.9	26.4	26.5	25.6	0.8	-0.3
EL	-	-	-	-	-	16.5	16.7	16.1	15.5	15.3	14.8	15.2	15.4	-	-1.1
ES	14.2	14.4	14.6	15.3	15.9	15.7	15.2	15.4	15.8	16.0	16.3	16.4	15.9	1.7	0.3
FR	21.5	22.1	22.2	22.0	22.1	20.9	20.3	20.3	20.0	20.1	20.1	19.9	19.5	-2.0	-1.4
IT	17.4	17.1	17.3	17.8	18.0	17.9	17.3	17.1	16.6	16.8	16.7	17.4	17.1	-0.3	-0.8
CY	12.6	12.3	11.3	11.5	11.3	12.7	14.3	15.4	18.9	20.0	20.0	20.4	21.4	8.8	8.6
LV	19.4	17.9	18.9	21.1	19.5	18.7	17.5	17.4	18.6	18.5	20.2	20.1	19.6	0.2	0.9
LT	17.7	16.4	20.4	20.7	19.2	18.0	17.5	17.9	17.0	16.1	16.5	16.7	17.9	0.2	-0.1
LU	21.1	20.8	21.6	21.6	22.5	23.1	22.8	22.8	23.9	25.3	26.2	26.3	26.9	5.8	3.8
HU	30.8	29.5	27.2	27.6	27.9	27.5	25.6	25.4	26.0	27.6	26.4	25.8	27.1	-3.7	-0.4
MT	14.8	14.0	14.8	13.8	14.8	15.9	16.5	18.1	16.5	17.6	19.7	19.9	20.3	5.5	4.5
NL	23.3	23.4	23.6	23.5	23.9	23.7	24.4	23.9	24.2	24.8	25.0	26.5	26.8	3.5	3.0
AT	20.5	21.1	22.1	22.3	22.8	22.1	22.1	22.5	22.2	22.1	21.7	21.2	21.6	1.1	-0.5
PL	20.7	20.7	19.7	18.9	19.5	17.8	17.2	17.9	18.3	18.4	19.5	20.2	21.4	0.6	3.6
PT	19.2	19.6	19.3	19.9	20.0	19.2	19.3	19.9	19.8	19.7	20.6	21.0	20.3	1.2	1.1
RO	-	-	-	-	15.9	16.8	15.5	16.2	17.7	16.4	17.9	17.7	18.1	-	1.3
SI	24.6	24.1	22.9	24.4	25.1	23.5	23.0	23.9	24.0	23.9	23.6	23.8	24.1	-0.5	0.6
SK	26.4	24.6	23.6	23.0	21.4	21.7	18.8	19.4	21.1	21.5	22.2	20.2	20.6	-5.9	-1.1
FI	27.6	27.4	29.3	29.1	29.4	28.6	27.6	27.7	28.1	27.7	27.6	27.2	26.5	-1.2	-2.1
SE	27.6	26.9	26.7	27.2	26.9	26.3	26.6	26.8	26.9	26.9	27.5	27.4	27.8	0.2	1.6
UK	20.0	19.9	19.9	19.7	19.9	19.4	19.1	19.0	19.2	19.1	18.7	18.6	18.4	-1.5	-1.0
NO	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*29.3*	*27.9*	*28.2*	*28.8*	*29.9*	*30.3*	*-*	*-*
EU-27	-	-	-	-	21.1	20.9	20.4	20.7	21.1	21.4	21.9	22.0	22.2	-	1.3
EU-25	21.4	21.1	21.2	21.3	21.5	21.1	20.7	21.0	21.2	21.5	21.9	22.0	22.2	0.8	1.1
EA-16	20.3	20.2	20.3	20.5	20.8	20.5	20.1	20.5	20.7	21.1	21.3	21.4	21.5	1.2	1.0

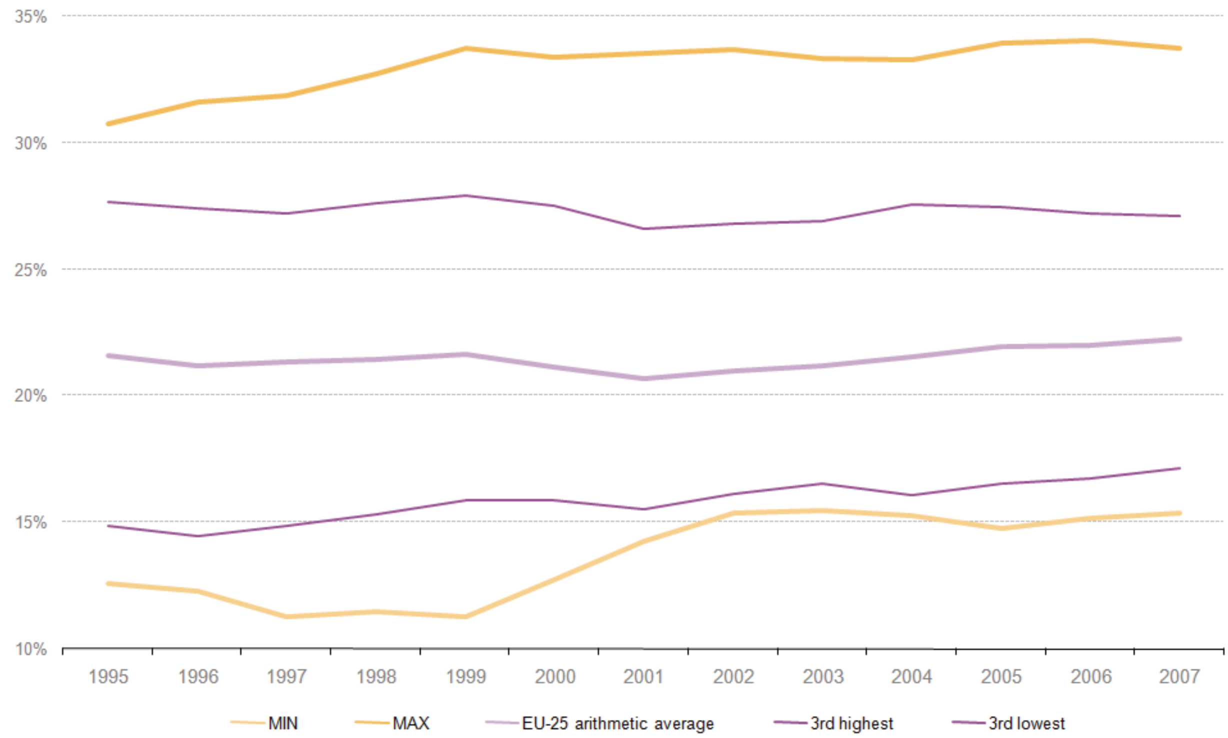
Source: Commission services

The trend increase has involved most of the Union. Compared to 2000 levels, only 10 countries have experienced declines. The most notable *declines* in the ITR were in Finland (– 2.1 percentage points) and in France (– 1.4), followed by more moderate ones in Greece and Slovakia (both – 1.1 percentage points), the United Kingdom (– 1.0), Italy (– 0.8), Austria (– 0.5), Hungary (– 0.4), Ireland (– 0.3) and Lithuania (– 0.1). However, the majority of the new Members States show gradual increases in their ITRs on consumption. In the period 2000–07, the most remarkable increase of ITR on consumption is noticed in Cyprus (by 8.6 percentage points), in Bulgaria (by 5.8 percentage points), in Estonia (by 4.6 percentage points) and in Malta (by 4.5 percentage points).

Graph II-2.2 gives an indication of the degree of convergence by showing the minimum and maximum values for the ITRs on consumption for the relevant years, followed by the third extreme values; the respective lines form 'external' and 'internal' bands. The external bands depict the maximum deviation of the ITRs, within which all the rates are located, while the internal bands give a good picture of the majority of Member States. The graph clearly shows that since 1999 the lowest ITRs on consumption are strictly converging upwards to the average, while the highest ones are almost stable with slight tendency to decrease from 2006. Both the low consumption taxing and high consumption taxing countries have experienced a slow increase in the ITRs, which is reflected in the upward trend of the EU-25 arithmetic average. The same picture of increasing convergence is shown by the two other indicators shown in Table D.1 in Annex A, namely the difference between the maximum and minimum value and the ratio between the standard deviation and the mean; both indicators show convergence over the examined period, particularly since 1999. The increasing convergence in the ITRs is mostly due to the rise in the ITRs in most of the New Member

States. Notably, the ITR for Cyprus has increased significantly in the examined period from the lowest EU level in 1995 to the level close to EU average.

Graph II-2.2 Implicit tax rate on consumption
1995–2007



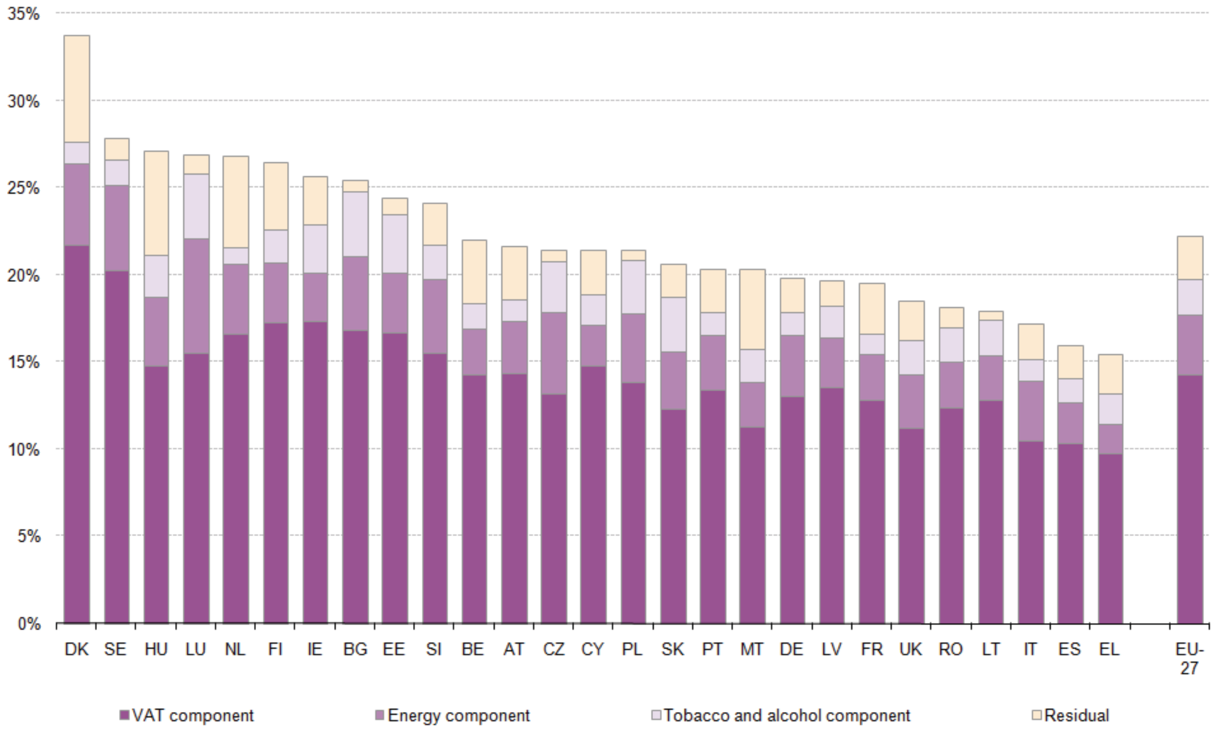
Source: Commission services

2.2. Implicit tax rate on consumption in the EU-27: 2007 level

The arithmetic average implicit tax rate for the EU-27 is 22.2 % for 2007. The lowest ITR on consumption throughout the whole Union is for Greece (15.4 %), followed by Spain (15.9 %), Italy (17.1 %) and Lithuania (17.9 %). In the high consumption taxing countries Denmark stands out with 33.7 %, almost six percentage points above the following Member States: Sweden, Hungary, the Netherlands and Finland.

The aggregate level of the ITR on consumption combines a number of taxes on consumption, which are different in nature and justification. Thus, a certain level of disaggregation is needed to highlight different components of the ITR on consumption and their share in the composition of the aggregate. The approach taken in this report has been to classify consumption taxes into four main sub-components: VAT, energy, excise duties on tobacco and alcohol and residual (see Graph II-2.3). This breakdown follows the approach introduced the first time in the 2007 report constructed on the basis of the National List of Taxes supplied by Member States (see online version of the report).

Graph II-2.3 Decomposition of the ITR on consumption
2007



Note: Italian data on tobacco and alcohol include revenue from stamp duties.

Source: Commission services

Not surprisingly, the VAT component is the largest. Nevertheless in all Member States the non-VAT component of the ITR is far from negligible; it ranges from lows of respectively 27.3 % in Sweden, 28.5 % in Lithuania and 30.8 % in Cyprus up to highs of 42.4 % for Luxembourg, 44.8 % for Malta and 45.4 % for Hungary.

VAT component of the ITR

The variation in the VAT component of the ITR, while non-negligible, is not as marked as that registered for the other three. Although the difference between the highest and lowest VAT component of the ITR exceeds 100 %, the variation in the energy component of the ITR and, even more so, for the tobacco and alcohol component and for the remaining consumption taxes is even wider.

The preceding paragraph highlights the fact that in breaking down the ITR on consumption for different components we use as a single denominator, the value of private consumption. This is a fairly precise measure for the ITR on VAT, but it introduces a statistical bias in the measures of the other components, because they refer to taxes levied on specific goods and thus their tax base is only a small portion of the final consumption. Although necessary to obtain an additive breakdown of the ITR, this fact should be borne in mind by the reader.

Energy component

The energy tax component, which includes excises on motor vehicle fuels, usually accounts for between two and five percentage points, the average being 3.4 points. The lowest values are found in Greece (1.6 percentage points) followed by Cyprus and Spain (respectively 2.3 and 2.4 percentage points), while the highest are found in Luxembourg (6.5 points), followed by Sweden (4.9 points), Denmark (4.7 points) and the Czech Republic (4.6

points). Despite the transitional periods granted to most of the New Member States, the energy component is in line with the EU average and rather high in some of them (in the Czech Republic, in Slovenia and Bulgaria (all 4.2 percentage points) as well as in Hungary and Poland where the component amounts to 3.9 percentage points in both countries). A high contribution of the energy component does however not necessarily imply high excise rates but may be due to a comparatively high share of energy use in the economy; conversely high taxation of energy could in theory result in a low energy component if the heavy taxes succeed in discouraging energy use (see also chapter on environmental taxation[2)]).

Tobacco and alcohol component

Taxation of alcohol and tobacco amounts to, on average, the equivalent of 2.0 percentage points. The range of variation is however wide, extending from 1.0 percentage points in the Netherlands to 3.8 points in Luxembourg. Other countries where tobacco and alcohol taxes raise little income include Italy, France, Denmark and Austria (all 1.2 points) whereas in Bulgaria and Estonia this component accounts for a significant portion of the ITR (3.7 and 3.4 points respectively).

Another issue is the effect of the elasticity of cigarettes and alcohol consumption on income. As this is typically low, their share in the final consumption in countries with higher disposable income per capita is typically lower; thus the tobacco and alcohol component is relatively small in comparison with the countries with lower disposable income per capita. In this regard it is not surprising that the lowest contributions from tobacco and alcohol taxation are typically found in the old Member States, the only exceptions being Luxembourg (where, however, consumption by tourists is likely to play a non-negligible role) and Ireland. As mentioned above, a high tobacco and alcohol component does not necessary imply high tax rates (and vice versa).

Residual

The residual component in the ITR on consumption not only varies a lot among Member States in size but is also rather heterogeneous. It is largest in Denmark (6.1 %) and Hungary (6.0 %) whereas it is very limited in most of the countries of central and eastern Europe. Denmark stands out for the great number of additional duties, most of which are also pollution and transport taxes (Tables C.4 to C.4.3 in Annex A list the revenue amounts for energy, pollution and transport taxes in detail). In the case of Hungary, however the residual is almost fully due to the local tax on company sales.

2.3. VAT component of the ITR on consumption

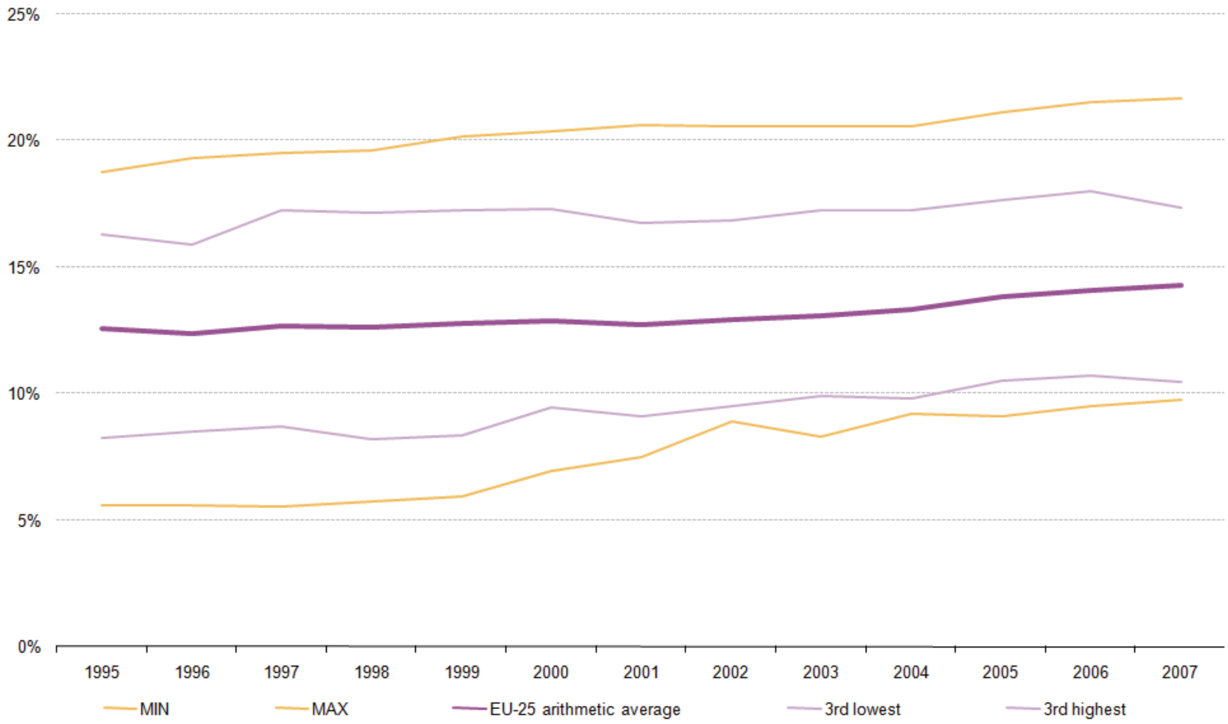
The upward trend of the VAT component of the ITR on consumption can be noticed over the examined period (see Graph II-2.4) and this applies both to the average and the extremes, while less clear in the third smallest and third highest value. The high extremes in 2007, which are left out of the inner bands, are represented by Denmark and Sweden and the low by Greece and Spain. The sharp and yet steady pick-up in the minimum value is due to increasing statutory VAT rates (from 10 % to 15 % in Cyprus and from 15 % to 18 % in Malta) as well as to widening of the tax bases.

The general upward trend of the VAT component of the ITR on consumption is noticeable in 2007 too, where only six Member States experience decreases: Finland, Malta (both – 0.2 percentage points) and France (– 0.1 percentage points) show only minor decreases, while the decreases in Spain (– 0.4 percentage points), Ireland (– 0.7 percentage points) and Slovakia (– 1.0 percentage points) are more pronounced. On the other side, in countries such as Cyprus

2) Note also that the energy component identified in this table does not necessarily include all the revenue data listed in Table C.4.1 in Annex A, as that may include energy taxes other than excises, although excises will generally represent the bulk of them.

and Lithuania the increase is in the range of 1.0 percentage points. Moreover, in Germany the VAT component increase is 1.6 percentage points mainly due to increase in the VAT rate in 2007.

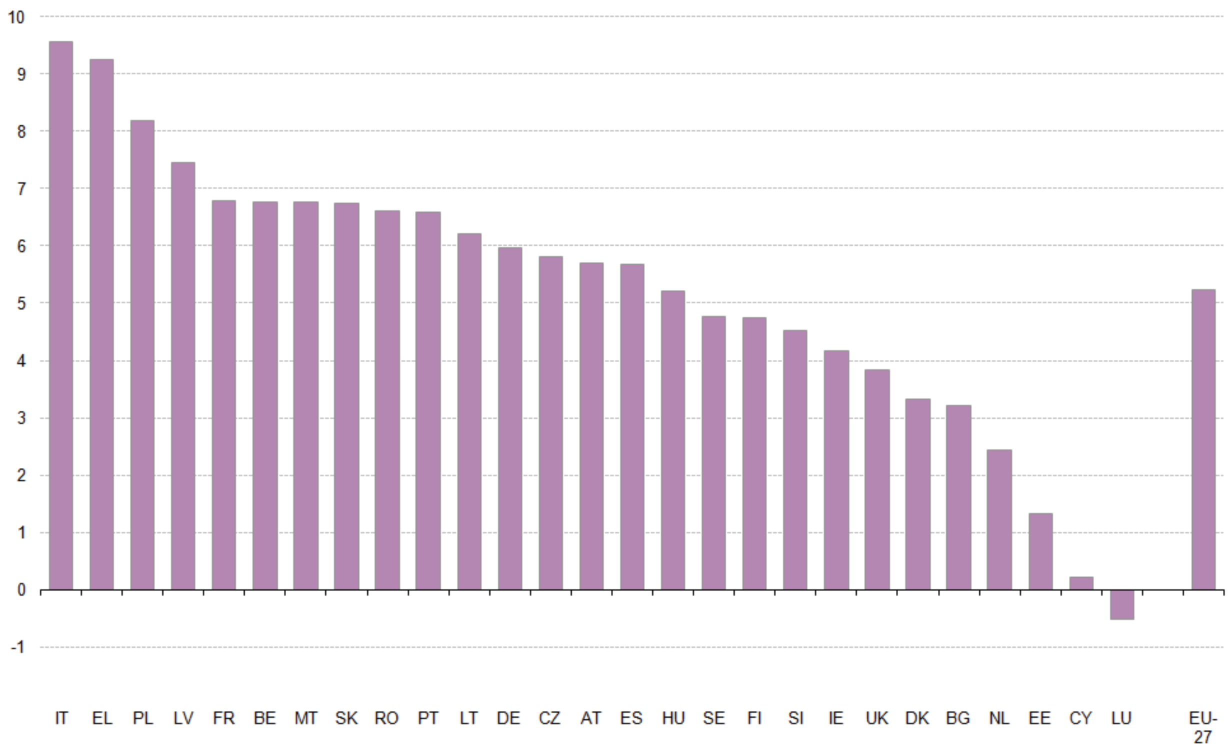
Graph II-2.4 VAT component of the ITR on consumption
1995–2007



Source: Commission services

A better insight into the peculiarities of the VAT tax bases in the Member States' tax systems is given by a specific indicator representing the difference between the generally applicable statutory VAT rate (disregarding reduced rates) and the VAT component of the ITR on consumption. This indicator, which we call 'VAT reduced rate and base indicator', was presented for the first time in the 2007 year's edition of the report; it aims at giving a snapshot of the extent by which a given VAT system approximates a 'pure' consumption tax, characterised by a flat rate and the widest possible tax base (i.e. the entire value of private consumption without exemptions). A low value of this indicator suggests that the VAT tax base approximates the value of private consumption and, hence, reduced rates and VAT exemptions play a minor role, while a high value represents an indication that a substantial share of private consumption is spared from taxation at the standard VAT rate. Other factors contributing to a high indicator value could also be represented either by a high registration threshold for VAT, implying taxation of only a share of intermediate consumption or significant levels of VAT evasion or avoidance.

Graph II-2.5 VAT reduced rate and base indicator
2007, in percentage points



Source: Commission services

Graph II-2.5 shows that for Italy and Greece the indicator reaches around nine percentage points, an outstanding value in itself. A major explanation for the high value of the indicator for Italy lies in the wide application of the reduced (10 %) and super-reduced (4 %) rates; these apply to widely consumed goods and services such as foodstuffs, transport, books and periodicals, pharmaceuticals, public facilities, hotel accommodation, restaurant services, and residential housing; the favourable treatment of housing in particular is likely to have a significant impact on revenues. In Poland, as of 2006, the reduced rates are also widely applicable and considerably lower: the super-reduced rate is 3 % and the reduced rate 7 %.

The lowest values (remarkably low at less than one and a half percentage point) are attributable to Estonia and Cyprus. As for Luxembourg (indicator is – 0.51 %), the geographical smallness of the territory and the significant expenditure by non-residents generally make the interpretation of the ITR difficult; revenues from consumption taxes paid by non-residents might therefore be the main cause for its negative indicator value. Bulgaria, which maintained until recently a VAT account system notably to fight tax evasion, also displays a low value in 2007 (around 3 %[3)]).

Table II-2.2 includes the standard VAT rates in the Member States, compared with the non-standard ones (reduced, super-reduced and parking). Note that in some Member States the non-standard rates are imposed on a narrow range of goods or services, or on goods having a limited share in the final consumption of households.

3) Bulgaria introduced a VAT account system in 2003 in order to ensure the virtual VAT payments. All VAT-registered businesses were required to open a VAT account, which was separated from other business' cash flows.

Table II-2.2 VAT rates in the Member States
2007, in %

Member State	Standard rate	Reduced rate	Super reduced rate	Parking
BE	21	6/12	-	12
BG	20	7	-	-
CZ	19	9	-	-
DK	25	-	-	-
DE	19	7	-	-
EE	18	5	-	-
IE	21.5	13.5	4.8	13.5
EL	19	9	4.5	-
ES	16	7	4	-
FR	19.6	5.5	2.1	-
IT	20	10	4	0
CY	15	5/8	-	-
LV	21	10	-	-
LT	19	5/9	-	-
LU	15	6/12	3	12
HU	20	5	-	-
MT	18	5	-	-
NL	19	6	-	-
AT	20	10	-	12
PL	22	7	3	-
PT	20	5/12	-	12
RO	19	9	-	-
SI	20	8.5	-	-
SK	19	10	-	-
FI	22	8/17	-	-
SE	25	6/12	-	-
UK	15	5	-	-

Note: Before 2007, in Bulgaria the reduced rate was applied by way of reducing the tax base to 35 % and then applying the 20 % standard rate.

Source: Commission services

2.4. Excise duty on tobacco and alcohol component of the ITR on consumption

The average of the excise duty on tobacco and alcohol component of the ITR on consumption is generally stable throughout the observed period. This stability may appear somewhat surprising since it is often asserted that the fact that many excises are specific, i.e. expressed as a fixed nominal amount per physical measure of product, and the already recalled generally low income and price elasticity of excisable goods should lead to revenue lagging behind inflation, and therefore to a gradual erosion of the excise component. This is not borne out by our data; at least as far as the EU-25 average is concerned.

Graph II-2.6 Tobacco and alcohol component of the ITR on consumption
1995–2007, in %

Source: Commission services

As of 2007 Luxembourg and Bulgaria have demonstrated the highest tobacco and alcohol component of the ITR on consumption (3.8 and 3.7 percentage points respectively). As Bulgaria, the other three countries with high excises (Czech Republic, Estonia and Slovakia) have experienced an increase in the tobacco and alcohol component of the ITR on consumption, ranging from 0.3 percentage points in the Czech Republic to 0.5 percentage points in Estonia and to 1.5 percentage points in Slovakia. In 2007, in total, 13 countries show a very slight decrease (less than 0.1 percentage points) in the tobacco and alcohol component of the ITR on consumption, in three countries this component decreased between – 0.1 percentage points and – 0.2. Only Malta and Portugal experienced a more pronounced drop by 0.3 and 0.4 percentage points respectively; whereby Portugal was falling further below the EU-25 average. In the other Member states the tobacco and alcohol component of the ITR on consumption remains stable with the slight deviation of less than 0.1 percentage points. The graph shows that despite the fact that there are still no maximum excise duty rates provided in the *acquis*, there is evidence that the implicit excise duty rates on tobacco and alcohol, measured by way of the excise component of alcohol and tobacco of the ITR on consumption, are slightly converging in recent years towards the average, which has in itself shown a tendency to remain quite stable over the last years.

3

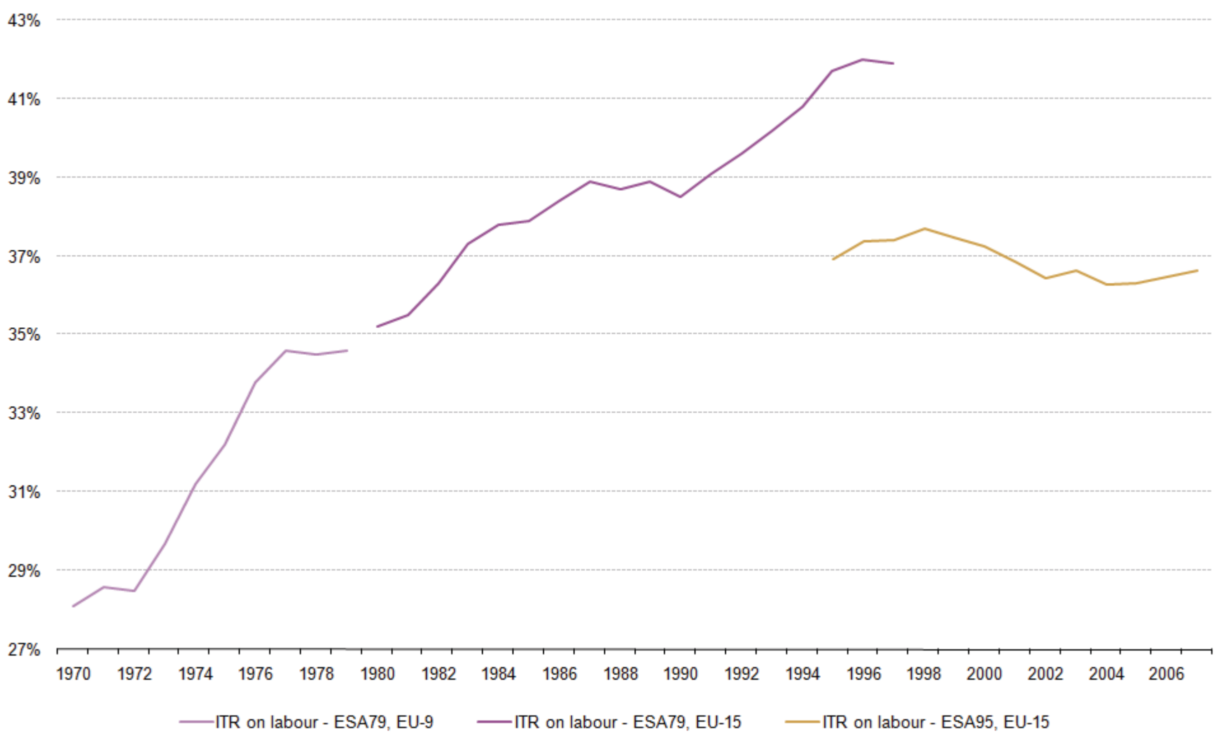
Trends in the implicit tax rate on labour

3. Trends in the Implicit tax rate on labour

3.1. Up to late 1990s, a very strong long-run increase in labour taxation

The tax burden on labour in the European Union started growing strongly in the early 1970s. The increase was very marked in the 1970, decelerating only slightly in the 1980s and the first half of the 1990s. As shown in Graph II-3.1, the weighted EU-15 average implicit tax rate on labour employed (ITR on labour) increased from about 28 % (1970) to almost 42 % (1997)[1)]. Now only five countries in the EU have ITRs below the 30 % mark. Labour taxes rose so forcefully because they were the only ones that could provide the volume of funds necessary to finance the additional government expenditure and because unlike consumption taxes, they could be made progressive in line with the social and political demands of the time. In the first half of the 1990s, further increases were due to the rise in unemployment caused by the recession at the beginning of the decade. Finally, in the second half of the decade, budgetary consolidation in the run-up to EMU forced several Member States to increases in the tax burden.[2)] Available data indicate that the ITR did not stop increasing until 1998.

Graph II-3.1 Time trend of ITR on labour
in % (weighted averages)



Note: The average ITRs on labour based on ESA79 system of national accounts are weighted by the total compensation of employees in the economy, whereas for ESA95 the GDP-weighted average is used. Data based on ESA79 are only available for the EU-9 and EU-15 Member States (1970–79 and 1980–97, respectively).

Source: Commission services

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1) See European Commission (2000a, 2000b).

2) Data for the 1995–2007 period is based on ESA95 and not fully comparable with previous ESA79 data. ITRs on labour computed on the basis of ESA95 data are generally lower than those on the basis of ESA79 data over the same period. This is notably due to the numerator of the indicator, as taxes on labour employed (as % of GDP) are generally lower in the new series. This is attributable to improved methods for estimating the allocation of personal income tax across different income sources. In many cases compensation of employees, as the main component of the denominator, was revised upwards.

3.2. Since beginning of this decade, slow decline from peaks

Starting from the late 1990s, concerns about excessive labour costs prompted initiatives to lower the tax burden on labour income, in order to boost the demand for labour and foster work incentives[3)]. Some Member States opted for cutting taxes or social contributions across the board while others focused on targeted reductions in social contributions for low wage and low-qualified workers[4)]. These cuts in social contributions were mostly aimed at granting relief to employers, although some countries have also implemented substantial cuts in employees' social contributions (see below for a more detailed analysis). Reforms of personal income taxes have varied, including lowering tax rates, raising the minimum level of tax exempt income or introducing specific deductions, allowances or credits for low-income workers[5)].

Although the impact of these measures on the general ITR on labour remains small[6)], the long-run increase in the ITR on labour stopped in the late-1990s at 37.7 % in 1998 and started to gradually decline, reaching 36.2 % in 2004. After having been stable in 2005, the average increased to 36.6 % in 2007; this was mainly due to (significant) increases in several bigger Member States. It is interesting to note that the EU-25 weighted average only marginally deviates from the EU-15 average in the 1995–2007 period (by less than 0.1 percentage points in all years).

When looking at the different types of averages calculated, it is noticeable that the arithmetic averages clearly lie below the weighted averages discussed so far[7)]. This is due to the fact that the tax burden in all big Member States but the United Kingdom is above the EU average. The trend in the arithmetic and weighted averages is, however, rather similar. Only in 2006 and 2007, the upward movement in the arithmetic euro area average is weaker than in the weighted average and, in the case of the EU-27 average, the increase in the weighted average is not reflected in the arithmetic average (Table II-3.1).

3.3. Diverse development across Member States since 2000

The pattern of the changes over the 2000–2007 period is quite diverse across Member States. In general, the central and eastern European Member States that acceded to the EU in 2004 and 2007, show a much stronger decline than the arithmetic EU-27 average in this time period: the average in these Member States has gone down by more than three percentage points since 2000, while the EU-27 average decreased by only 1.5 percentage point. The euro area average has gone down by a mere 0.3 percentage points. As a result of this development, the average of the new Member States is now, at 34.2 %, slightly below the EU-27 average (34.4 %), while it had been above the EU average in all years up to 2006.

This divergence in development is, of course, also visible when looking at a country-by-country breakdown of the ITRs on labour: reductions since 2000 are in particular noticeable in newly acceded Member States, with the highest reductions having taken place in Bulgaria, Lithuania, Slovenia and Slovakia, Latvia and Estonia. However, the three Nordic Member States and Ireland also significantly reduced the ITR. On the other hand, the ITR increased markedly in Portugal and Spain. In all the other Member States the change amounted to less than 2.5 percentage points. In the most recent years, there is no clear trend: from 2006 to 2007, for slightly more Member States increasing rates can be observed than decreasing ones (see Table II-3.1).

3) See also Carone and Salomäki (2001).

4) For a discussion of tax reforms in the 2000–06 period in those 19 EU Member States that are also OECD member countries see OECD (2008). Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania, Slovenia are not presently members of the OECD.

5) See Box ‘Main fiscal measures affecting the ITR on labour’ and Part III, Developments in Member States for more details.

6) A discussion of possible reasons for the smaller than expected decline can be found in Annex B, Part D.

7) See Annex A, Table D.2 for details.

Table II-3.1 Implicit tax rates on labour in the Union
1995–2007, in %

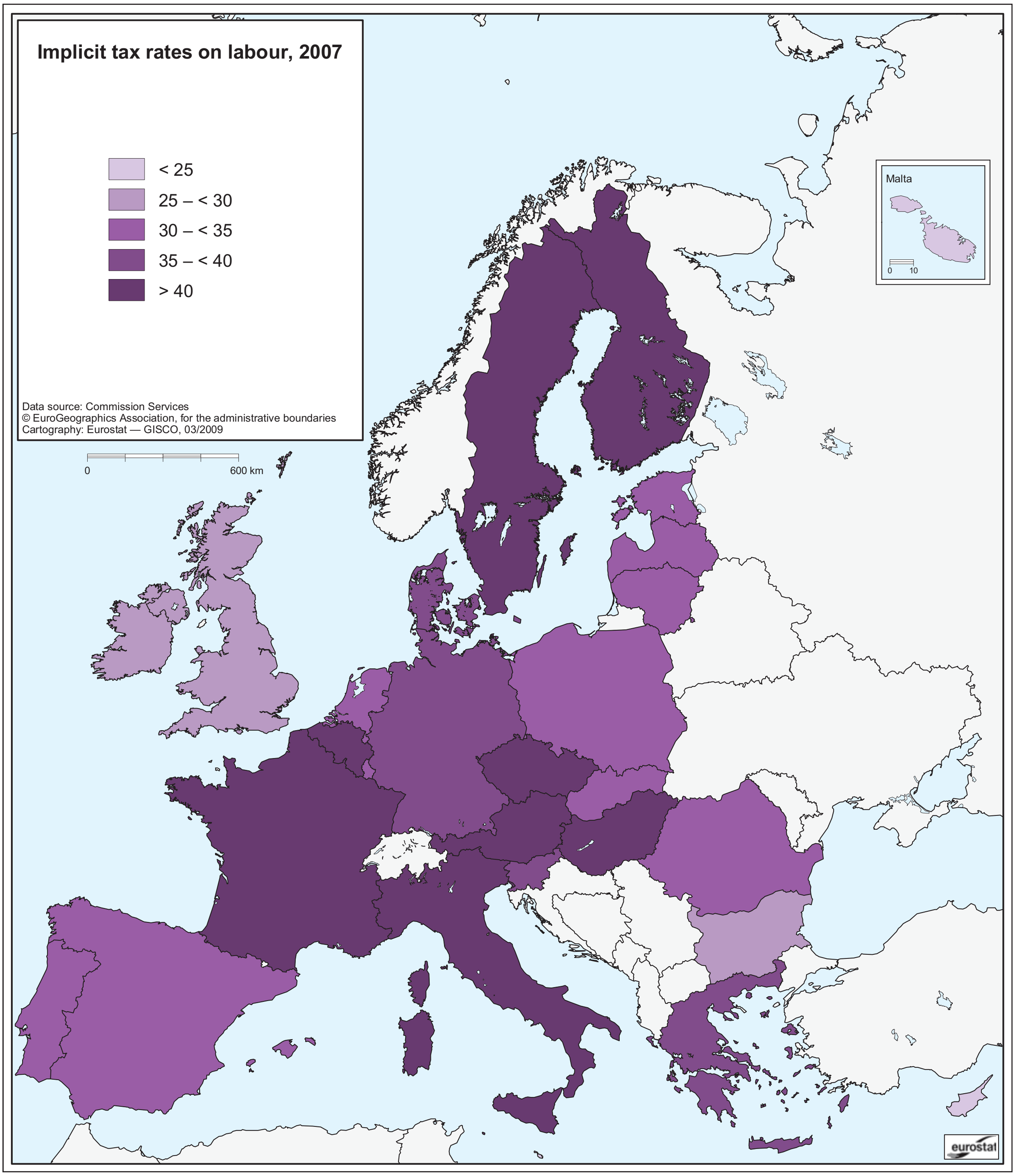
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Difference 1995-2007	Difference 2000-2007
BE	43.8	43.4	43.9	44.3	43.6	43.9	43.5	43.6	43.4	44.0	43.8	42.7	42.3	-1.5	-1.6
BG	-	-	-	-	35.9	38.7	34.3	32.9	35.5	36.3	34.7	30.6	29.9	-	-8.9
CZ	40.5	39.5	40.3	40.7	40.5	40.7	40.3	41.2	41.4	41.8	41.7	41.1	41.4	0.9	0.7
DK	40.2	40.2	40.7	38.9	40.2	41.0	40.8	38.8	38.1	37.5	37.1	37.1	37.0	-3.2	-4.0
DE	39.4	39.6	40.6	40.6	40.4	40.7	40.5	40.4	40.4	39.2	38.8	39.0	39.0	-0.5	-1.8
EE	38.6	37.8	37.6	38.9	39.3	37.8	37.3	37.8	36.9	36.1	34.1	33.9	33.8	-4.8	-4.0
IE	29.7	29.3	29.5	28.6	28.7	28.5	27.4	26.0	25.0	26.3	25.4	25.4	25.7	-4.0	-2.8
EL	-	-	-	-	-	34.5	34.6	34.4	35.6	33.7	34.2	35.1	35.5	-	1.0
ES	29.0	29.5	28.7	28.6	28.3	28.7	29.5	29.8	29.9	29.9	30.3	30.8	31.6	2.6	2.9
FR	41.2	41.5	41.8	42.3	42.6	42.1	41.7	41.2	41.5	41.4	41.9	41.9	41.3	0.1	-0.8
IT	38.0	41.8	43.4	44.8	44.2	43.7	43.6	43.5	43.4	43.1	42.9	42.5	44.0	6.0	0.3
CY	22.1	21.3	21.5	22.5	21.8	21.5	22.8	22.2	22.7	22.7	24.5	24.1	24.0	1.8	2.4
LV	39.2	34.6	36.1	37.2	36.9	36.7	36.5	37.8	36.6	36.7	33.2	33.1	31.0	-8.2	-5.7
LT	34.5	35.0	38.4	38.3	38.7	41.2	40.2	38.1	36.9	36.0	34.9	33.6	32.3	-2.2	-8.9
LU	29.3	29.6	29.3	28.8	29.6	29.9	29.6	28.3	29.3	29.5	30.4	30.7	31.2	2.0	1.3
HU	42.6	43.0	43.7	42.8	42.6	41.4	40.9	41.2	39.3	38.3	38.4	38.8	41.2	-1.4	-0.2
MT	19.0	17.8	19.9	18.2	19.2	20.6	21.4	20.8	20.4	21.0	21.3	21.3	20.1	1.1	-0.5
NL	34.6	33.6	32.8	33.2	34.1	34.5	30.6	30.9	31.5	31.4	31.6	34.6	34.3	-0.4	-0.3
AT	38.5	39.4	40.7	40.3	40.5	40.1	40.6	40.8	40.8	41.0	40.8	40.8	41.0	2.5	0.9
PL	36.8	36.3	35.9	35.6	35.8	33.6	33.2	32.4	32.7	32.7	33.1	34.2	35.0	-1.9	1.4
PT	26.5	26.4	26.3	26.2	26.6	27.0	27.4	27.6	27.8	27.9	28.1	28.6	30.0	3.5	3.0
RO	-	-	-	-	37.6	32.2	31.8	31.1	29.5	28.9	28.0	30.4	30.1	-	-2.1
SI	38.5	36.8	37.0	37.5	37.8	37.7	37.5	37.6	37.7	37.5	37.6	37.4	36.9	-1.6	-0.7
SK	38.5	39.4	38.3	38.0	37.4	36.3	37.1	36.7	36.1	34.5	32.9	30.5	30.9	-7.6	-5.4
FI	44.3	45.3	43.6	43.8	43.3	44.1	44.1	43.8	42.5	41.5	41.5	41.6	41.4	-2.9	-2.7
SE	46.8	48.0	48.4	49.4	48.5	47.2	46.2	44.8	44.7	44.7	45.0	44.5	43.1	-3.7	-4.1
UK	25.7	24.8	24.4	25.0	25.1	25.3	25.0	24.1	24.3	24.8	25.5	25.8	26.1	0.3	0.8
NO	-	-	-	-	-	-	-	*38.7*	*39.0*	*39.2*	*38.5*	*37.9*	*37.8*	-	-
EU-27	-	-	-	-	36.1	35.9	35.5	35.1	35.0	34.8	34.5	34.4	34.4	-	-1.5
EU-25	35.7	35.6	36.0	36.1	36.1	35.9	35.7	35.4	35.2	34.9	34.7	34.8	34.8	-0.9	-1.1
EA-16	34.2	34.4	34.6	34.7	34.7	34.6	34.5	34.2	34.3	34.1	34.1	34.2	34.3	0.2	-0.3

Source: Commission services

3.4. Implicit tax rate on labour in the EU-27: large differences in levels

There are large differences in the level of labour taxation among the Member States (see Table II-3.1). At one extreme, Malta (20.1 %) and Cyprus (24.0 %) stand out with the lowest ITR on labour in the Union. This might be linked with their historical ties to Britain, as the United Kingdom and Ireland are the only other two countries whose ITR on labour is more than eight percentage points below the EU-27 average. Other countries, too, have low taxes on labour. Bulgaria has a below 30 % ITR (see Map II-1), while the rate in Portugal and Romania is very close to the 30 % mark. In contrast to these geographically more peripheral Member States, most 'continental' European Member States (Italy, Belgium, Czech Republic, France, Hungary, Austria, Germany, Slovenia) exhibit above average ITRs. The same applies to the Nordic countries. Within these two groups of countries Italy, Sweden, Belgium, Finland, Czech Republic France, Hungary and Austria stand out for reporting an ITR on labour which exceeds 40 %. When comparing the ITR on labour with the overall tax-to-GDP ratio, it is noticeable that those Member States that exhibit a high ITR on labour in most cases also have a high tax-to-GDP ratio. The same applies to low-tax countries. This result is in line with the high share of labour taxes in overall tax revenues.

Map II-1 Tax burden on labour



3.5. Composition of the implicit tax rate on labour

The tax burden on labour is essentially composed of personal income taxes and social security contributions. In most Member States the personal income tax contains several rates. However, a description of the entire rate structure goes beyond the scope of this chapter[8)]. Therefore, the focus lies on the top rate, which is also of importance when comparing CIT and PIT rates. Table II.3.2 contains the top PIT rates (including surcharges and local taxes) for the EU Member States and Norway on 1995–2008 income. The table shows a clear downward trend over the whole period, which became even stronger after the turn of the century. Twenty-two EU Member States have cut the rate over the time period covered whereas only one country (Portugal) increased it slightly[9]. In just four cases the rate has not changed (in Austria, Latvia, Malta and the United Kingdom). The EU-27 average went down by 10.6 percentage points since 1995 and 7.3 percentage points since 2000. The reduction since 2000 is most noticeable in the central and eastern European countries that joined the union in 2004 and 2007, with the biggest cuts having taken place in four countries that moved to flat rate systems, Bulgaria (– 40.0 percentage points), the Czech Republic (– 28.0), Romania (– 24.0) and Slovakia (– 23.0). On average, these countries have reduced the top PIT rate by more than 11 percentage points since 2000, whereas the former EU-15 countries have reduced the top rate by a mere 3.5 percentage points.

Table II-3.2 Top personal income tax rates
1995–2008 income

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Difference 1995-2008	Difference 2000-2008
BE	60.6	60.6	60.6	60.6	60.6	60.6	60.1	56.4	53.7	53.7	53.7	53.7	53.7	53.7	-6.9	-6.9
BG	50.0	50.0	40.0	40.0	40.0	40.0	38.0	29.0	29.0	29.0	24.0	24.0	24.0	10.0	-40.0	-30.0
CZ	43.0	40.0	40.0	40.0	40.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	15.0	-28.0	-17.0
DK	63.5	62.0	62.9	61.4	61.1	59.7	59.6	59.8	59.8	59.0	59.0	59.0	59.0	59.0	-4.5	-0.7
DE	57.0	57.0	57.0	55.9	55.9	53.8	51.2	51.2	51.2	47.5	44.3	44.3	47.5	47.5	-9.5	-6.3
EE	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	24.0	23.0	22.0	21.0	-5.0	-5.0
IE	48.0	48.0	48.0	46.0	46.0	44.0	42.0	42.0	42.0	42.0	42.0	42.0	41.0	41.0	-7.0	-3.0
EL	45.0	45.0	45.0	45.0	45.0	45.0	42.5	40.0	40.0	40.0	40.0	40.0	40.0	40.0	-5.0	-5.0
ES	56.0	56.0	56.0	56.0	48.0	48.0	48.0	48.0	45.0	45.0	45.0	45.0	43.0	43.0	-13.0	-5.0
FR	59.1	59.6	57.7	59.0	59.0	59.0	58.3	57.8	54.8	53.4	53.5	45.8	45.8	45.8	-13.3	-13.2
IT	51.0	51.0	51.0	46.0	46.0	45.9	45.9	46.1	46.1	46.1	44.1	44.1	44.9	44.9	-6.1	-1.0
CY	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	30.0	30.0	30.0	30.0	30.0	30.0	-10.0	-10.0
LV	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	0.0	0.0
LT	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	27.0	27.0	24.0	-9.0	-9.0
LU	51.3	51.3	51.3	47.2	47.2	47.2	43.1	39.0	39.0	39.0	39.0	39.0	39.0	39.0	-12.3	-8.2
HU	44.0	44.0	44.0	44.0	44.0	44.0	40.0	40.0	40.0	38.0	38.0	36.0	40.0	40.0	-4.0	-4.0
MT	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	0.0	0.0
NL	60.0	60.0	60.0	60.0	60.0	60.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	-8.0	-8.0
AT	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	0.0	0.0
PL	45.0	45.0	44.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	-5.0	0.0
PT	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	42.0	42.0	42.0	2.0	2.0
RO	40.0	40.0	40.0	48.0	40.0	40.0	40.0	40.0	40.0	40.0	16.0	16.0	16.0	16.0	-24.0	-24.0
SI	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	41.0	41.0	-9.0	-9.0
SK	42.0	42.0	42.0	42.0	42.0	42.0	42.0	38.0	38.0	19.0	19.0	19.0	19.0	19.0	-23.0	-23.0
FI	62.2	61.2	59.5	57.8	55.6	54.0	53.5	52.5	52.2	52.1	51.0	50.9	50.5	50.1	-12.2	-4.0
SE	61.3	61.4	54.4	56.7	53.6	51.5	53.1	55.5	54.7	56.5	56.6	56.6	56.6	56.4	-4.9	4.9
UK	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	0.0	0.0
NO	*41.7*	*41.7*	*41.7*	*41.7*	*41.5*	*47.5*	*47.5*	*47.5*	*47.5*	*47.5*	*43.5*	*40.0*	*40.0*	*40.0*	*-1.7*	*-7.5*
EU-27	47.3	47.1	46.4	46.1	45.3	44.7	43.7	42.9	42.2	41.2	39.9	39.3	39.1	37.8	-9.5	-6.9
EU-25	47.5	47.3	46.9	46.3	45.7	45.0	44.1	43.6	42.8	41.8	41.4	40.9	40.6	39.8	-7.7	-5.3
EA-16	50.4	50.4	50.2	49.4	48.8	48.4	47.1	46.1	44.9	43.4	43.0	42.7	42.1	42.1	-8.3	-6.3

Note: BE: including crisis tax (1993-2002) and local surcharge, DK: state taxes plus municipality taxes and including church tax. DE: including solidarity surcharge, FR: including general social welfare contribution and welfare debt repayment levy (since 1996), which are partly deductible from PIT, HU: including solidarity tax in 2007 and 2008, IT: including regional surcharge and local surcharge, LU: including solidarity surcharge for Unemployment Fund (since 2002), FI, SE: state taxes plus municipality taxes, NO: including surtax.

Source: Commission services

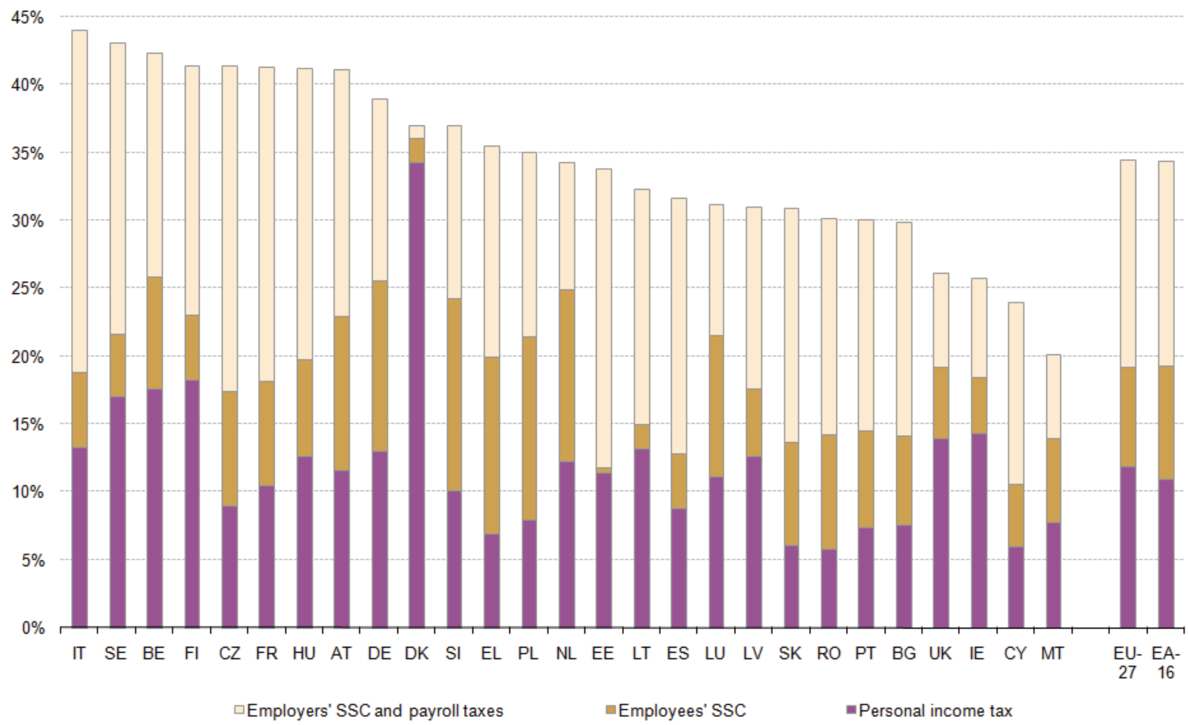
8) The interested reader can find a complete description of the rate system and the brackets in force in the Member States in the 'Taxes in Europe' database on the EU website at the following url: http://ec.europa.eu/tedb. The database is accessible free of charge and updated annually.

9) Portugal introduced a new top PIT rate on 2006 income.

The average top PIT rate on 2008 income of the newly acceded central and eastern European countries is, at 22.82 %, less then half the average of the former EU-15 countries (46.95 %), with the EU-27 average standing at 37.79 %.

Of course, the picture given by the rates is incomplete. Not only the level and change of the top PIT rate is relevant but also the income level at which they are applied. Moreover, the progression of PIT rates applied, the structure of allowances and tax credits, and the definition of the tax base play a key role in defining the effective tax burden. This is very aptly illustrated by the fact that the ITR on labour only marginally declined in the 1995–2007 period, despite the strong reduction in the top PIT rates. Moreover, in the majority of the Member States social security contributions have a higher impact on the level of the ITR than the PIT. On average, nearly two thirds of the overall ITR on labour consist of non-wage labour costs paid by both employees and employers (see Graph II-3.2). Only in Denmark, Ireland and the United Kingdom do personal income taxes have an above 50 % share in the total charges paid on labour income. In Denmark, the share of social contributions in government receipts is very low as most welfare spending is financed by general taxation[10)]. As a result, Denmark has only the 10th highest ITR on labour in the EU, although the ratio of PIT (as a percentage of total labour costs) is, at around 34 % in 2007, by far the highest of all Member States (see Graph II-3.2). In some of the Member States, namely Romania, Greece and Slovakia less than 20 % of the ITR on labour consists of personal income tax.

Graph II-3.2 Composition of the implicit tax rate on labour
2007, in %



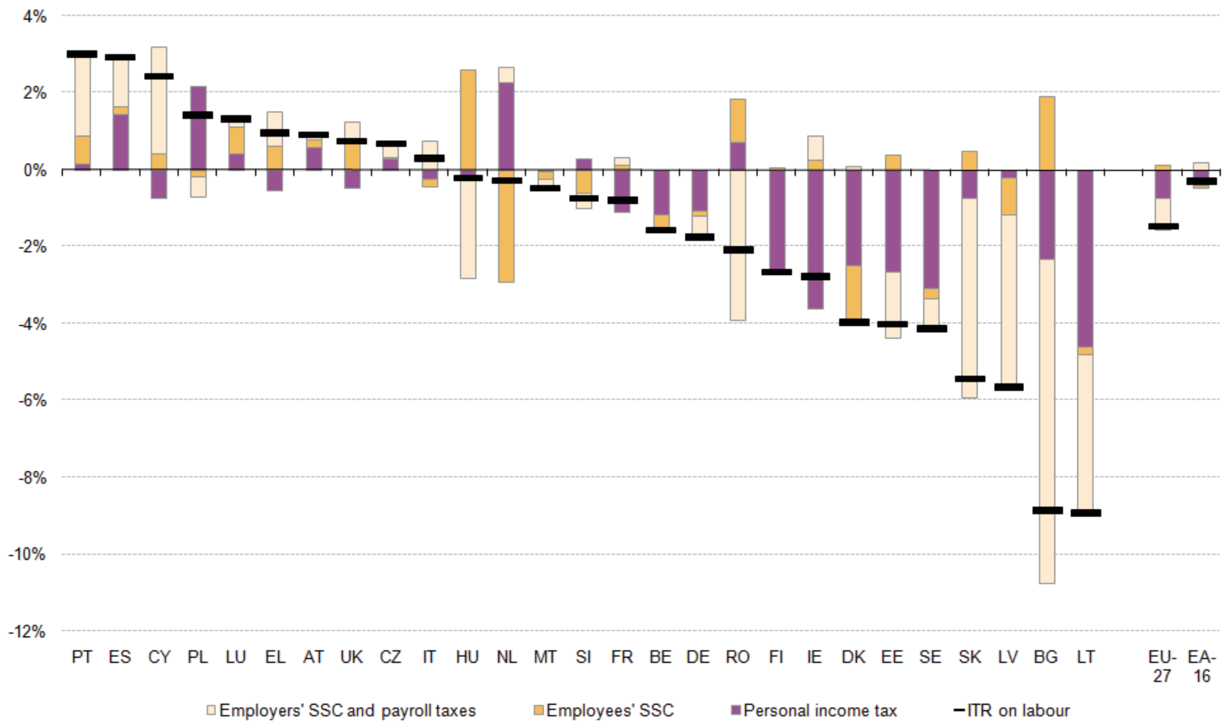
Source: Commission services

Between 2000 and 2007 the components of the ITR on labour have changed markedly in several Member States (see Graph II-3.3). For the EU-27 average the following development can be observed: personal income taxation of labour as well as employers' SSC and payroll taxes have gone down, while employees' SSC have very slightly

10) A large part of employees' social contributions in Denmark comes from an 8 % contribution paid on the basis of employees' gross earnings. Some studies classify this revenue as a social security contribution, while others report it as a separate type of personal income tax.

increased (all as a percentage of total labour costs). It is interesting to note, that on average hardly any changes can be observed for the euro area.

Graph II-3.3 Evolution of the components of the implicit tax rate on labour
2000–2007, differences in percentage points



Note: Countries are ordered by the change in the ITR on labour.

Source: Commission services

When looking at the shares of the ITR on labour over time, it should be borne in mind that both inflation and real earnings growth tend to push up the ITR on labour owing to progressivity, the so-called 'fiscal drag'. On the other hand, social security systems are often regressive owing to the existence of contribution ceilings. Depending on which of these two influences is stronger, the ITR will tend to drift upwards or downwards over the years even in the absence of explicit adjustments in tax brackets and thresholds. In a sense, of course, not adjusting for inflation and real earnings growth is a policy decision too. Moreover, one has to note that, according to an OECD study[11)], a (partial) automatic or discretionary adjustment of the income tax system to inflation is in place in 10 out of those 19 EU Member States (EU-19) that are also OECD member countries, whereas such adjustments for real earnings growth are only in place in two of these Member States. In the case of social contributions, automatic adjustments for the so-called fiscal drag apply in at least 13 of these Member States.

When looking at the changes in single Member States, an interesting aspect is that in most of the countries on the left hand side of Graph II-3.3, whose ITR on labour has gone up notably since 2000, all components have increased or at least remained more or less stable. As concerns the countries that have reduced the ITR on labour in this time period, this change is to a large extent driven by reductions in PIT and employers' SSC and payroll taxes. Only in three countries a real shift in the different components of the tax burden can be observed. In the case of Hungary,

11) See OECD (2008, pp. 23—55). The study shows that, in the absence of any policy adjustments, fiscal drag would have led to an increase in the average tax burden in all EU-19 Member States covered. The effect seems to be strongest for low-wage earners.

employers' SSC and payroll taxes were reduced, while employees' SSC increased. In the case of Romania, the tax burden paid by employers was markedly reduced, while the one by employees (SSC share and PIT) increased. As concerns the Netherlands, the shift took place within the share paid by the employees (from SSC to PIT). From an economic point of view, it is often thought that in the long run both components of the SSC are shifted to labour, whereas in the short run the impact may differ as increases in employers' social contributions have an immediate impact on the cost structure, while the impact from employees' social contributions is more indirect[12)]. Box 1 at the end of this chapter presents an overview of the main fiscal measures affecting the ITR on labour[13)].

3.6. A comparison with tax wedges computed for example household types

The discussion in the preceding section is based on the ITRs on labour, which give a picture of the average tax burden on labour across all income classes. However, even at an unchanged overall tax level, the burden of taxation may be shifted between high and low-income taxpayers resulting not only in redistribution but notably also in a different impact on employment. In particular, over the last decade policymakers have often resorted to cuts in labour taxes that are targeted to the bottom end of the wage scale in order to boost employability of low-skilled workers. To evaluate progress in this direction, this section compares the evolution of the ITR on labour with that of the tax wedge — i.e. the difference between labour costs to the employer and the corresponding net take-home pay of the employee.

The annual OECD publication *Taxing Wages*, provides internationally comparable data on total tax wedges for various household types and different representative wage levels. The representative wage levels are linked to the average gross earnings of an adult full-time worker, including both manual and non-manual workers. The tax wedges are calculated on the basis of tax legislation in force, by expressing the sum of personal income tax, employee's plus employer's social security contributions together with any payroll tax, as a percentage of total labour costs. These indicators can theoretically identify discretionary tax policy measures as regards personal income tax and social contributions while at the same time excluding the effects of cyclical factors (which are not filtered out by the ITR on labour). However, because of the approach followed, the method has no link to actual tax revenue, nor does it incorporate all the elements of the tax system that may be relevant, such as effects of special tax reliefs (which are instead incorporated in the ITR). This implies that in the case of policy measures, the indicator at any selected income level will tend to show either a large response or none at all depending on whether the representative worker utilised for the computation falls within the circle of its beneficiaries or not; the ITR, in contrast, will tend to minimise the impact of only targeted measures. Hence the two approaches are complementary. Besides, the tax wedge indicator has the advantage of being available also for those OECD member countries that are not EU Member States[14)].

Taxing Wages provides data only for the OECD Member States, but tax wedges based on the same methodology are computed for the EU in collaboration with the European Commission. The following analysis focuses on the 'Tax wedge on low wage workers', which is the tax wedge for a single worker without children at two thirds of average earnings (see Table II-3.3). That indicator is also used in the framework of the Lisbon Strategy — together with the ITR on labour — to estimate the potential impact of tax provisions on the labour market.

Table II-3.3 contains the tax wedge data for the 2000–2007 period[15)]. The figures in Table II-3.2 display a downward trend indicating a clear, although not particularly strong, impact from targeted cuts in taxes and social security

12) See Arpaia and Carone (2004).

13) For an overview of recent policy measures not only in the area of taxation but in the overall tax benefit system see Carone et al. (2009).

14) These data published by the OECD show that the tax burden in the main other industrialised countries is much lower that in the EU: the EU-19 averages of the tax wedge are in general clearly above the overall OECD averages (OECD, 2008a).

15) Pre-2000 data are not fully comparable due to changes in the definition of the average wage (see OECD, 2006b, and European Commission, 2007).

contributions that came to a halt in 2006. While the tax wedge is lower in 20 Members States in 2007 compared to 2000, the reductions appear to be particularly large in Bulgaria, Hungary, Sweden, Slovakia, Cyprus, and Finland. Among the countries that have increased the tax wedge in this period, the United Kingdom and Malta show the biggest increase with 2.3 and 1.8 percentage points, respectively; however, the tax wedges of both countries are still among the lowest in the EU. On average the tax wedge in the EU-25 decreased by 1.5 percentage points.

Table II-3.3 Tax wedges for a single example worker at two thirds of average earnings
in %

	2000	2001	2002	2003	2004	2005	2006	2007	Difference 2000-2007
BE	51.3	50.7	50.5	49.6	48.9	49.3	49.4	49.6	-1.7
BG	40.0	36.9	36.2	36.0	35.8	36.3	31.5	32.3	-7.7
CZ	41.4	41.3	41.5	41.7	41.9	42.0	40.1	40.5	-0.9
DK	41.2	40.5	39.8	39.8	39.3	39.2	39.3	39.3	-1.9
DE	48.6	47.7	48.1	48.8	47.8	48.2	48.4	47.4	-1.2
EE	38.2	37.4	40.2	40.7	38.9	39.2	38.4	38.7	0.5
IE	18.1	17.3	16.7	16.2	20.0	16.8	16.1	15.0	-3.1
EL	35.5	35.1	34.3	34.4	34.9	34.9	35.9	36.7	1.2
ES	34.7	35.3	35.7	34.7	35.2	35.5	35.9	35.6	0.9
FR	47.4	47.6	47.4	45.0	42.4	41.3	44.3	44.4	-3.0
IT	43.1	42.7	42.7	41.1	41.4	41.7	41.9	42.0	-1.1
CY	16.7	17.0	17.3	18.6	18.6	11.9	11.9	11.9	-4.8
LV	42.2	42.0	42.2	41.4	41.9	41.8	41.8	41.2	-1.0
LT	42.9	42.9	43.1	40.9	41.6	42.6	40.6	41.3	-1.6
LU	32.8	31.2	29.0	29.3	29.6	30.2	30.6	31.4	-1.4
HU	51.4	50.9	48.2	44.5	44.8	43.1	43.3	45.9	-5.5
MT	16.6	17.0	17.7	17.4	17.6	17.9	18.4	18.6	2.0
NL	42.0	38.9	39.1	40.0	40.8	41.4	40.5	40.2	-1.8
AT	43.2	42.9	43.1	43.5	43.9	43.3	43.7	44.1	0.9
PL	42.2	41.8	41.7	42.0	42.2	42.2	42.5	41.6	-0.6
PT	33.2	32.2	32.3	32.4	32.4	32.4	32.6	32.6	-0.6
RO	44.7	45.2	44.6	43.4	42.9	42.4	42.2	41.8	-2.9
SI	41.0	42.2	43.2	43.2	43.2	41.6	41.2	40.9	-0.1
SK	40.6	41.3	40.8	40.9	39.6	35.2	35.5	35.6	-5.0
FI	43.0	41.4	40.9	40.0	39.4	39.5	39.0	38.2	-4.8
SE	48.6	47.8	46.8	47.0	47.2	46.6	45.9	43.3	-5.3
UK	28.5	28.1	28.3	29.8	30.0	30.6	30.7	30.8	2.3
NO	*35.1*	*35.2*	*35.2*	*34.9*	*35.0*	*34.2*	*34.3*	*34.2*	*-0.9*
EU-27	38.9	38.3	38.2	37.9	37.9	37.3	37.1	37.1	-1.8
EU-25	38.6	38.1	38.0	37.7	37.7	37.1	37.1	37.1	-1.5
EA-16	36.7	36.3	36.2	35.9	36.0	35.1	35.3	35.3	-1.5

Source: Commission services, OECD, data from the Lisbon Strategy structural indicators database (OECD model)

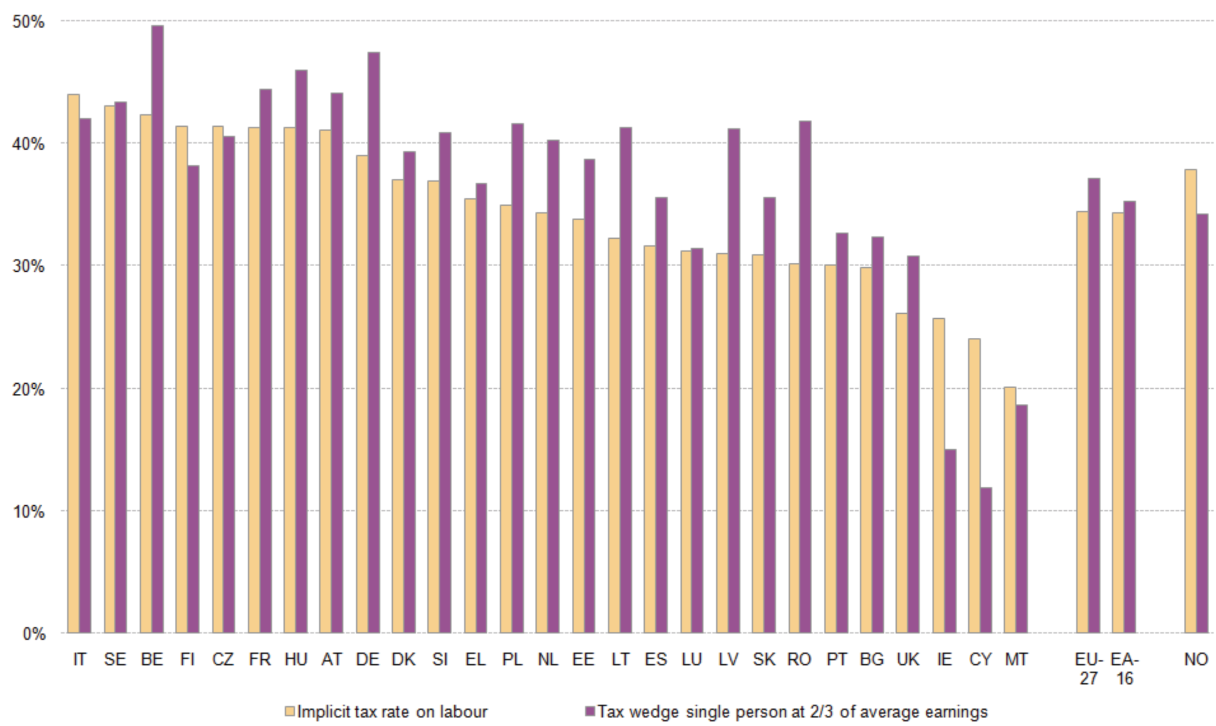
Despite the differences between the two approaches, a comparison between the tax wedge indicator and the ITR on labour for the year 2007 shows a rather small difference at the level of the EU-25 and euro area (arithmetic) averages (see Graph II-3.4)[16]. At the level of individual Member States the results of the comparison of the two indicators appear mixed. For around one third of them the difference between the two indicators is rather small. Three Member States have a tax wedge on low wage workers which is substantially (more than three percentage points) lower than the ITR on labour, which appears reasonable considering the progressive structure of personal income tax. On the other hand, 15 Member States present a tax wedge on low wage workers which is substantially higher than the ITR on labour. This discrepancy is more surprising but could be explained by the following reasons: the tax wedge considered relates to a single worker without children, so the effect of tax allowances linked to dependent

16) See European Commission (2004, pp. 101–104) and Annex B, Part D, for a comparison between the ITR on labour and the tax wedge for a single worker without children at average earnings.

relatives is not captured. Furthermore, social contributions are often subject to ceilings, in which case low wage workers have a social contributions rate, which is more elevated than that of high-paid workers. Another aspect that needs to be considered is that average earnings based on the OECD definition refer to full-time equivalents and are, therefore, rather high. Finally, the income distribution in the EU Member States is left skewed, which implies that the earnings of the median workers are well below the average earnings.

As a result, the ranking between the Member States may also be quite different. The differences are not specific to a single year. Nevertheless, the correlation between the macro and micro indicators is still fairly robust. Member States with a high tax wedge on low wage workers generally also display relatively high ITRs on labour and the other way round. For example, Sweden and Belgium are consistently in the higher group regarding the taxation of labour, while Ireland, the United Kingdom, Cyprus and Malta are always in the group of the lowest countries.

Graph II-3.4 Pair-wise comparisons of ITR on labour and tax wedge indicator
2007, in %, ordered by the ITR on labour



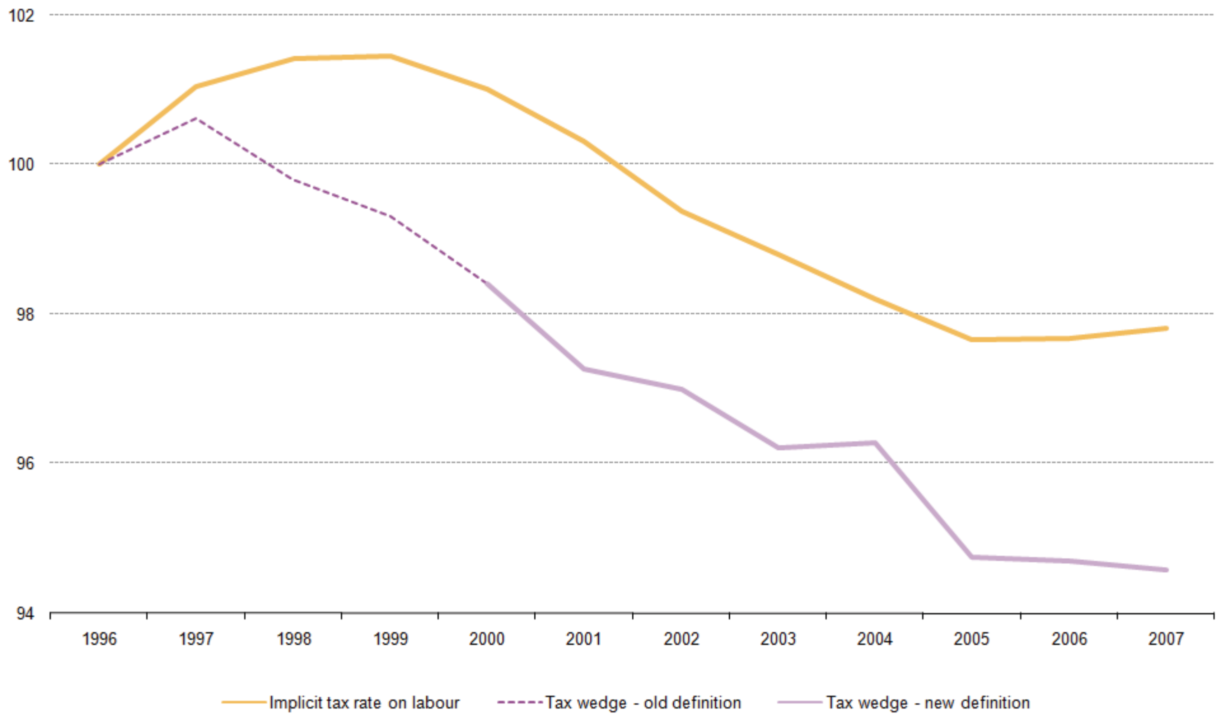
Note: Countries are ordered by the level of the ITR on labour

Source: Commission services (using data from the Lisbon Strategy structural indicators database)

Graph II-3.5 compares the trends over time in the tax wedge indicator and the ITR on labour (with 1996 = 100). For each year EU-25 arithmetic averages are computed. Indices representing the trend of both variables have been plotted into the graph[17)]. When comparing the trends it should be borne in mind that tax policy changes are immediately integrated in the Taxing Wages model but might be reflected with some time lag only in the ITR on labour[18)].

17) As discussed in the 2007 edition of the report (European Commission, 2007), data for the 1996–99 period are based on a different definition of average wages. Therefore, the time series for the tax wedge contains a structural break in 2000. In order to calculate a series without a break, the growth rates of the EU-25 average of the indicator are used for the calculation of the time trend of the tax wedge. The growth rate for the years 1997 to 2000 are calculated based on the data using the old definition (wage of the average production worker). Growth rates for 2001 onward refer to the new average wage definition.

Graph II-3.5 Time trend micro and macro indicators in the Union
EU-25, arithmetic averages, index 1996 = 100



Source: Commission services

Over the 1996–2007 period, the EU average tax burden on labour stabilised and then started to slowly decline. This trend is visible in the development of both indicators. However, the indicators do not always develop in parallel. Two periods can be distinguished: up to 2000 the ITR on labour increased and then remained stable, whereas the tax wedge started to decrease markedly already as of 1998. The gap between the two indicators opened up indicating that targeted tax cuts were playing a growing role (see Box 2)[19]. In the second period, from 2001–05, the two series run roughly parallel, both showing a downward trend. Despite changes in single years, the gap overall remained nearly unchanged over these years. In 2006 and 2007, the downward trend in the tax wedge slowly continues, whereas in the case of the ITR on labour, the average rate somewhat increased.

18) See Annex B, Part D, for an explanation.

19) The difference might be even bigger at lower income levels, given that targeted measures often aim at wages with a threshold well below 2/3 of the average wage.

Box 2: Overview of main fiscal measures affecting the ITR on labour

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
	Austria	
Reduction in tax credits (general, employees and pensioners tax credit).	2001	Reduction in employers' contribution rates for health insurance and pay insurance schemes for 'blue collar' workers.
Reduction in the income and wage tax of low and middle-income earners and of sole and single earner, reduction in the number of tax brackets (2004-2005).	2004	
Increase in commuters tax allowances and exemption of compensation for overtime hours.	2008	Increase in health insurance contributions and reduction in unemployment insurance contributions for low income earners.
Cut in income tax (marginal tax rate, tax brackets); increase in credits and allowances for children. Introduction of deductibility of charitable donations and increase of deductibility of contributions to religious communities.	2009	
	Belgium	
Indexing of tax brackets suspended (1993-1998). Introduction of 'crisis tax' (1993) on top of all statutory rates plus 'solidarity levy' on personal income (1994).	1993	
	1997	Lowering of employers' contributions, especially in respect of the low-paid. The scope of the reductions in employers' SSC was expanded to more social security schemes (1997-2008), and was followed by the introduction of the Estafette plan as well as the possibility for deductions of employers' contributions over the amount due for the hiring of young workers and low skilled workers (2005).
Reintroduction of automatic indexing of tax brackets. Phasing out of ‘crisis tax’(1999-2002).	1999	
	2000	Flat rate reductions in employers' contributions for the hiring of young workers, low skilled workers and workers aged over 50.
PIT reform (2001-2004) of which the main provisions are (a) lowering of tax burden on earned income including the introduction and subsequent increase of refundable employment tax credit aimed at low paid workers (b) a neutral tax treatment of spouses and singles (c) more favourable treatment of dependent children (d) greening of the tax system.	2001	

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Belgium (continued…)		
Introduction and increase of tax rebates for scientific researchers (2003-2009) and shift workers (2004-2009). The tax rebate is granted on the amount of wage withholding tax that has to be paid by the employer to the tax administration. As they do not affect PIT, these rebates are recorded as subsidies to the employers in the national accounts.	2003	
	2004	Structural reduction in employers' contributions.
Overtime pay: tax reduction for the employees; for the employers tax rebate granted on the amount of withholding tax paid by the employer to the tax administration (2005–09).	2005	Replacement of the refundable employment tax credit by an increased reduction in employee contribution for low paid workers.
Additional allowance for dependent persons aged more than 65. Increase of the first bracket of lump sum professional expenses.	2006	
New increase of the first bracket of lump sum professional expenses.	2007	
Increase of the basic allowance in the PIT for low- or middle-income taxpayers. Exemption of non-recurring bonuses linked to enterprise's results.	2008	
Doubling of deductible commuting expenses.	2009	
Bulgaria		
	2001	Lowering of the SSC rates by 3 percentage points.
Continuous lowering of the top PIT rate, increase of the non-taxable minimum and flattening of the tax brackets almost annually, most notably since 2002	2002	Introduction of second pillar and transfer of it to a share of SSCs for people born after 1st January 1960. (supplemented SG No. 10/2002)
Introduction of annual allowances for children.	2004	
	2006	Lowering of the SSC rates by 6 percentage points.
	2007	Lowering of the SSC rates by 3 percentage points.
Introduction of a 10 % flat PIT rate without allowance and abolition of tax credit for dependants. Disabled individuals are granted an annual allowance of BGN 7920.	2008	
	2009	Lowering of the SSC rates by 2 percentage points.
Cyprus		
Progressive increase of the non-taxable allowance (1995-2003).	1995	
Cut in the PIT rates from 20/30/40 % to 20/25/30 %.	2003	
Extension of basic tax free allowance.	2008	

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Czech Republic		
Reduction from 6 to 4 brackets.	2000	
Revision of several allowances.	2001	
Introduction of the family splitting for families with children.	2005	
Cut in two lowest tax rates from 15 % to 12 % and from 20 % to 19 % respectively, broadening of the first tax bracket and replacement of standard tax allowances by tax credits.	2006	
Introduction of a 15 % flat PIT rate and increase in tax credits.	2008	
	2009	Reduction in employers' and employees' contribution rates.
Denmark		
Cut in rate of low tax bracket (1996-1999).	1996	
Increase in rate of additional medium tax bracket.	1997	Increase in employees' social contribution rate.
Cuts in PIT, especially at the bottom to the middle end (1999-2002).	1999	Introduction of employees' contributions for special pension savings scheme.
Increases in thresholds of medium and top tax bracket and introduction of an earned income tax credit or employment allowance.	2004	Temporary suspension of obligatory contributions to the special pension scheme (2004-2008).
Abolition of county taxes along with an offsetting increase in municipal taxes and introduction of 8 percent healthcare state tax.	2007	
Increase in personal allowance as well as rate and upper limit of earned income tax credit.	2008	
Increases in threshold of medium tax bracket and further increase of rate and upper limit of earned income tax credit.	2009	
Reduction in the bottom tax bracket, abolition of the medium tax bracket and cut in the top marginal tax rate; gradual increase in allowance for top tax bracket (2010-2019).	2010	
Estonia		
Gradual cut in flat income tax rate from 26 % to 21 % (1994 - 2008).	1994	
	2002	Introduction of the unemployment insurance premium.
Gradual increase of basic allowance in nominal terms by 100 % (2003 to 2006) and further increase by 50 % (2011).	2003	

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Estonia (continued...)		
Decrease of the maximum amount for the deductions from 100 000 EEK to 50 000 EEK.	2005	
	2006	Reduction in the unemployment insurance rates (2006): for employees 0.6 % (formerly 1.0 %) of gross wage and for employers 0.3 % (formerly 0.5 %) of employee's gross wage.
Additional basic allowance for the first child. Impact on tax receipts in 2009.	2008	
Cancelling of additional basic allowance for the first child. Additional basic allowance for the second child and next children remains. Impact on tax receipts in 2010.	2009	Increase in the minimum rate for the social tax in case of self-employed persons. Previously calculated from 2700 EEK a month; starting in 2009 the tax is calculated from current year's minimum wage (4350 EEK per month in 2009). Increase in the unemployment insurance rates as of 1 July 2009: for employees 1.0 % (formerly 0.6 %) of gross wage and for employers 0.5 % (formerly 0.3 %) of employee's gross wage.
Finland		
Annual cuts of marginal tax rates in state income taxation in 1997 and 1999 - 2009, and increases in the lowest amount of income subject to state income taxation (1995-2009). Reductions in local income tax especially at the bottom to the middle end by means of earned income tax allowance (1997-2008).	1995	
	1997	Reductions in employees' and employers' contribution rates (1997-2002).
Abolition of the lowest state income tax bracket (increase in the tax exemption), subsequent annual increase in the lowest amount of income subject to state taxation.	2001	
	2003	Regional reductions in employees' and employers' contribution rates (2003 – 2009).
	2004	Increase in employers' and employees' contribution rates (2004 and 2005).
Introduction of earned income tax credit in state income taxation.	2006	Reduction in the state employers' national pension insurance and health insurance contributions. Reduction in employers' and employees' pension insurance contributions.
Reduction in the number of tax brackets from five to four. Increase in earned income tax credit in state income taxation, to be replaced by a labour income tax credit in 2009.	2007	
	2009	Reduction in the employers' national pension insurance contribution. Reduction in employees' and employers' unemployment insurance contributions.

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
	France	
Introduction of contribution for refunding of debt of social security institutions (CRDS) with a broader base than the generalised social contribution (CSG).	1996	
Increase in CSG tax rate from 2.4 % to 3.4 %.	1997	Reduction in employers' contributions for low-paid workers (1997-2001).
CSG tax rate moved from 3.4 % to 7.5 % and became partly deductible from income tax.	1998	Reduction in employees' sickness contributions.
	2000	Reduction in employees' and employers' unemployment contributions (2000-2001).
Introduction of the Prime pour l'Emploi targeted especially to low-income earners.	2001	
Increase of the Prime pour l'Emploi.	2004	
Introduction of a tax shield limiting direct taxes to maximum 60 % of income. Remodelling of income tax through a reduction in the number of income tax brackets from six to four and by lowering the rates.	2006	
Increase of the Prime pour l'Emploi.	2007	Enterprises of less than 20 employees benefit from a total exemption from employer's SSCs for employees receiving the minimum statutory salary.
Reinforcement of tax shield to 50 % of income. Social contributions (CSG and CRDS) are then included into the tax shield.	2008	
Temporary decrease of the PIT for low and medium income people.	2009	
	Germany	
	1997	Increase in social contribution rates.
Gradual increase of basic tax-free allowance by nearly a quarter (1998-2005).	1998	
Across-the-board cuts in PIT bringing the highest marginal rate down from 53 % to 42 % and the lowest rate from 25.9 % to 15 % (1999-2005).	1999	Reduction in social contributions to the pension system funded by ecological tax reform (1999-2002).
	2003	Slight increases in contribution rate to the old-age insurance.
Introduction of a new top marginal tax rate of 45 %.	2007	Slight increases in contribution rate to the old-age insurance (2007). Overall reduction in the contribution rate to the unemployment insurance from 6.5 % to 2.8 % (2007, 2008, 2009).
Reduction in lowest marginal tax rate (2009), increase in basic tax allowance (2009-2010).	2009	Increase and subsequent reduction in health insurance contribution rate.

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
	Greece	
Cut in highest statutory PIT rate, indexing of tax brackets plus increase in the level of tax-exempt income (2000-2002).	2000	
	2001	Reductions in employers' and employees' pension contributions in respect of new staff and at the low end of the wage scale (2001-2002).
Conversion of tax deductions into tax credits.	2003	
Increase of the non-taxable income and expansion of the central tax scales. Abolition of PIT rate of 15 %. Gradual reduction of PIT rates for the taxable income of € 12 000 up to the level of € 75 000, for income earned in the 2007-2009 period. PIT rate remains 40 % for income higher than € 75 000.	2007	
Introduction of extra tax on personal income for high income earners (income above € 60 000); tax is gradually increased from € 1 000 € for income between € 60 001 and € 80 000 to € 25 000 for income above €900000.	2009	
Introduction of gradual reduction of PIT rates for income earned in 2010 onwards: the applicable rate of the second band (25 %) is decreased annually by one percentage point until 2014 (i.e. in 2010 the rate is 24 % and in 2014 the rate is 20 %).	2010	
	Hungary	
Income tax brackets reduced from six to three. Decrease in employees' tax credit.	1999	Employers' total payroll costs generally reduced to 37.5 %.
Changes in tax brackets.	2001	Employers' social contributions reduced.
Increase in employees' tax credit.	2002	
Changes in tax brackets.	2003	Increase in employees' mandatory pension contributions.
Reduction in the number of tax brackets to two through abolition of the middle bracket.	2005	Decrease in lump-sum health contribution.
Cut in highest rate from 38 % to 36 %, introduction of a 4 % solidarity tax on high salaries.	2006	Increase in employee's individual healthcare contribution from 4 % to 6 % (September 2006) and to 7 % (2007).
Change in tax brackets.	2007	
	2008	Decrease in employee's healthcare contribution from 7% to 6%, increase in employees' mandatory pension contributions from 8.5 % to 9.5 %, decrease in employers' healthcare contribution from 8 % to 5 % and increase in employers' pension contributions from 21 % to 24 %.
Increase in lowest PIT bracket (as from 1 January 2009).	2009	Decrease in employers' SSC by 5 percentage points (up to double of minimal wage, as from 1 July 2009).

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
	Ireland	
PIT rate cuts: of the lower band from 27 % to 20 % (1997-2001) and the higher band from 48 % to 42 % (1998-2001). Increases in basic tax allowances/credits (1997-2008). Widening and individualisation of the tax bands (1997-2008).	1997	Reduction in employers' 'PRSI' contributions (1997-2002). Reductions in employees' 'PRSI' contributions (1997-2008).
Revenue-neutral move from a system of tax allowances to a system of tax credits (completed in 2001).	2001	
Reduction in higher PIT band from 42 % to 41 %.	2007	
Introduction of an additional income levy of 1 % on gross income up to € 100 100 per annum and a rate of 2 % for income above this amount. On income in excess of € 250 120 a further 1 % is payable. Doubling of income levy to 2 % (above exemption threshold of € 15 028), 4 % (income in excess of € 75 036) and 6 % (above € 174 980) as of 1 May 2009.	2009	Introduction of a pension levy on public sector wages. Two step increase in employee SSC ceiling.
	Italy	
	1997	Reductions in employers' social contributions in respect of new jobs and at the low end of the pay scale (1997-2000).
	1998	Reduction in employers' health care contribution rate. Introduction of new regional tax ('IRAP') based on the value of production net of depreciations (1998).
Cut in the second bracket of the income tax.	2000	
Further general cuts in rates, in particular on the middle brackets (2001-2002).	2001	
Family allowance supplemented by an additional tax credit depending on the number of dependent children.	2002	
Introduction of a 'no tax area' for low level of income (2003). Revision of PIT tax rates (2003 and 2005).	2003	
2007 finance bill introduced several changes mainly in the direction of increasing the equity of the tax system, raise in tax-exempt basic allowances; introduction of cuts to second and third bracket (from 33 % to 27 % and from 39 % to 38 %) for different levels of income; introduction of new fourth 41 % rate bracket; fifth 43 % bracket now applies to incomes from € 75 001 instead of € 100 000. Deduction from IRAP of the employer's social contributions paid plus € 5 000 for each non temporary worker (€10000 in depressed areas).	2007	

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Italy (continued…)		
Reduction of IRAP tax rate from 4.25% to 3.9%.Granting of tax credit of up to € 333 per month (€416 for women in high female unemployment areas) granted to enterprises located in depressed areas, per each new employee.	2008	
IRAP paid by employers is now 10% deductible from CIT or PIT.	2009	
Latvia		
	1997	Gradual reduction in the rate of social insurance contributions from 38 % to 33.09 % (1997, 2000, 2001 and 2003).
Gradual increase of non-taxable minimum and relief for dependants (2005-2009).	2005	
Reduction in PIT rate from 25 % to 23 %. Introduction of tax allowances for groups negatively affected by the flat tax scheme.	2009	Abolition of the ceiling of SSCs for all insured persons.
Lithuania		
Gradual increase of basic tax-exempt allowance from LTL 142 to LTL 320 and corresponding increase of individual allowances for disabled and single parents (1996 to 2008).	1996	
	2000	Mandatory social contributions increased by 1 % (to 31 %) of gross wages for employers and by 2 % (to 3 %) for employees.
Introduction of additional tax-exempt allowance for the first second child (0.1 of basic tax-exempt allowance, 2003).	2003	
Gradual reduction in the income tax rate from 33 % to 27 % (from 1 July 2006) and to 24 % (from 1 January 2008).	2006	
Reduction in tax burden on employment income. Previous all-in 24 % rate replaced with 15 % PIT rate + 6 % compulsory health insurance contribution for a total of 21 %. Various changes in personal allowances or deductions	2009	Introduction of health insurance contribution (see tax section).
Luxembourg		
Cut in PIT rate from 50 % to 46 %.	1998	
Substantial increase in tax allowance for house and child care.	1999	Introduction of a new long term care scheme with a contribution rate of 1 % of taxable income.

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Luxembourg (continued...)		
Cut in PIT from 46 % to 42 % (maximal rate) and increase in the minimum threshold of taxation. Extension of deduction possibilities for different types of income, a.o. for privately held pension plans.	2001	
Cut in PIT from 42 % to 38 %.	2002	
	2007	Increase in contribution rate to long-term care scheme from 1 % to 1.4 % of income.
Increase of tax brackets. Introduction of child bonus (transformation of tax relief for families with children into tax credit).	2008	
Increase of tax brackets. Introduction of tax credits for income earners, the retired and monoparental families, (replacing former tax relief for these categories).	2009	Introduction of new uniform paid sick leave scheme.
Malta		
Reduction in the number of tax brackets and change in range of rates.	2000	
Increase in tax thresholds.	2002	
Increase in the number of tax brackets and change in the tax thresholds.	2003	
Reduction in the number of tax brackets and change in range of rates.	2007	
Increase in tax thresholds.	2008	
Increase in tax thresholds.	2009	
Netherlands		
	1996	Reductions in wage tax and employers' social contributions with respect to the long-term unemployed, the low-paid and for training purposes (1996-2001).
	1998	Contribution for disability insurance scheme shifted from the employee to the employer. Increases in employees' contribution rate for state pensions and medical expenses (1998-2000).
Across-the-board cut in PIT. Introduction of a tax credit for all employees and self-employed (2001-2002), in return, lump sum deductions for labour cost expenses and self-employed were abolished in 2001.	2001	Reductions in employees' contribution rate for unemployment insurance.
	2006	Introduction of new health care insurance system.
Increase in the tax credit for working parents and introduction of a bonus for older employees.	2009	Abolishment of the employee's contribution to the unemployment social security scheme.

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
	Poland	
Cut in tax rates and limitation of tax deductions (up to 1998).	1998	
	1999	Global reform of the social security system.
Rise of thresholds for the taxable income.	2007	
Introduction of new PIT rates of 18 % and 32 % (replacing the 2008 rates of 19 %, 30 % and 40 %.)	2009	
	Portugal	
General cut in PIT rates.	2001	Targeted reductions in employers' social contributions.
General cut in PIT rates.	2005	
Introduction of a new top tax bracket, changes in tax credits.	2006	
Exclusion from public transport commuting expenses from taxable income.	2009	
	Romania	
Introduction of a flat rate tax system with a tax rate of 16 %, replacing the previous four bracket system with tax rates ranging from 18 % to 40 %.	2005	
	2006	Reductions in employees' and employers' contribution rates (2006-2008).
	2008	Global reform of the social security system: broadening of the tax base by the inclusion of bonuses; removal of the ceiling of five average gross wages on the payment of SSC etc. Reform of pension system - introduction of a compulsory second pillar (starting with 2008).
Increase in level of deductibility of voluntary health insurance (from €200 to €250) and threshold of deduction for employees' contribution to facultative pension schemes (€ 200 to € 400).	2009	Increase in employee's and employers' contribution rates; decrease in employers' contributions for work accidents and professional diseases by 0.5 %.
	Slovakia	
Increase in tax allowances, reduction in the number of tax brackets from 7 to 5 (1995-2002).	1995	Reduction in employers' social contributions by 2.8 % (1995-2006) and increase in employees' social contributions by 1.4 % (1995-2006).
Reduction in the top and in the bottom tax rates.	2003	
General tax reform, shift of the tax burden from direct toward indirect taxes, elimination of exemptions and special regimes and introduction of flat tax rate of 19 % in PIT.	2004	Linkage of the contributions ceiling (payroll tax cap) to the average wage (3 or 1.5 x average wage).

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Slovakia (continued…)		
	2005	Introduction of mandatory privately managed fully funded pillar at 9 % of gross earnings.
	2006	Introduction of healthcare contribution annual clearing (in 2006 for health contributions paid in 2005).
Reduction in the non-taxable personal allowance.	2007	
	2008	Increase in contributions ceiling (payroll tax cap) from 3 to 4 times the average wage.
Introduction of an employee tax credit as a form of negative income tax; increase in basic allowance.	2009	
Slovenia		
	1996	Decrease of social contributions and introduction of payroll tax.
Reduction in the number of tax brackets from six to five and of the lowest rate from 17 % to 16 %, increase in general allowance for all taxpayers (from € 1 474 to € 2 355) and in tax allowances for taxpayers with children.	2005	Phasing out of payroll tax by 1 January 2009 (2005-2009). Rates are 0 %, 2.3 %, 4.7 % and 8.9 % in 2007 and 0 %, 1.1 %, 2.3 % and 4.4 % in 2008.
Introduction of a dual income tax system (dividends, interests and capital gains are taxed separately by proportional rates.	2006	
Reduction in the number of tax brackets from five to three; increase in general allowance for all taxpayers (from € 2 522 to € 2 800), increase in tax allowances for taxpayers with three or more children.	2007	
Further increase in general allowance to € 5 118 (if the taxable income is up to € 8 557), € 4 082 (if the taxable income is between € 8 557 and € 9 897), € 3 051 (if the taxable income is above € 9 897)	2008	
Spain		
	1997	Targeted reductions in social contributions (1997-2000).
Across the board cut in PIT rates, increase in basic personal allowances and increase in work income allowance for low wages.	1999	
	2001	Reduction in unemployment contributions for employers and employees.
Cut in PIT and introduction of a non-wastable annual tax credit of € 1200 for working females with children under 3 years of age.	2003	
	2006	Introduction of various abatements and reductions in social contributions for hiring of disadvantaged workers.

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
Spain (continued…)		
Reduction in the tax scale applicable to the general component of taxable income from five brackets (15 % to 45 %) to four (24 % to 43 %). Increase in personal and family allowances, which are now included in the first income bracket taxed at a zero rate. Steady increase in the general tax allowance for employment based on a non-linear formula (2007). Introduction of general tax deductions (for women giving birth to children).	2007	Reduction of SSC of up to 40 % for research workers.
Indexing of main PIT tax parameters. Introduction of a € 400 general tax rebate for working and self-employed income earners. Introduction of a tax deduction for taxpayers renting their permanent dwelling.	2008	
Several temporary tax measures taken in relation with the global financial and economic crisis mainly addressed to tackle taxpayers' housing problems (up to 2010): Deadline extension of contributions to housing bank account schemes and own housing reinvestment and advanced claim of own housing mortgage tax deduction through monthly withholding tax payments. Continued application of € 400 general tax rebate for working and self-employed income earners.	2009	Introduction of abatements and reductions in SSC for hiring unemployed workers with children.
Sweden		
	1995	Increases in employees' contribution rates (1995-1998).
Reductions in central- and local income tax, especially at the bottom to the middle end (1999-2001).	1999	
Increase in threshold for State income tax (2000-2002) and increase in basic allowance (2001-2002).	2000	Reductions in employers' contribution rates (2000-2001).
	2004	Reduction in employers' social contributions (2004, 2006 and 2007).
Increase in the tax reduction linked to pension contributions, higher basic tax allowance for low and middle income earners (2006).	2006	
Introduction of an earned income tax credit in two steps (2007, 2008) and subsequent increase (2009).	2007	
	2009	Reduction in employees' social contributions.
United Kingdom		
PIT reductions, especially at the bottom to the middle end (1999-2000).	1999	Increase in starting point for paying national insurance contributions (NIC) for employers and employees. Reduction in employers' contribution rates to compensate for introduction of climate levy (1999-2001).

MEASURES IN THE DOMAIN OF TAXATION		MEASURES IN THE DOMAIN OF SOCIAL CONTRIBUTIONS
United Kingdom (continued…)		
	2002	Increase of the NIC by 1 % for both employers and employees.
Abolition of the 10 % rate of income tax for non-savings income. Decrease in the basic rate of PIT from 22 % to 20 %. Increase in tax-free personal allowance for taxpayers under 65.	2008	
An additional rate of income tax (50 %) will be applied for annual incomes above GBP 150 000; restriction of PIT allowance for annual incomes over GBP 100 000.	2010	
	2011	Increase in national insurance contributions by 0.5 % for employees, employers and self-employed.
Norway		
Reduction of surtax (1999, 2002-2006). Increase of minimum allowance (1999-2002, 2006, 2007).	1999	
Increase of surtax (2000, 2007).	2000	
Taxation of rehabilitation benefits as wage.	2002	
	2004	Phasing-out of regionally differentiated employers' SSC (2004-2006).
Increase in allowance for labour union fees (2006-2009).	2006	
	2007	Reintroduction of regionally differentiated employers' SSC.
Increase in parent allowance.	2008	

Source: Commission services

4

Trends in the implicit tax rate on capital

4. TRENDS IN THE IMPLICIT TAX RATE ON CAPITAL

4.1. Introduction

In recent years growing policy attention has been devoted to the taxation of capital, and in particular corporate income taxes. Corporate income tax, although usually considered the main tax on capital, is not a major source of revenue in any of the Union's Member States. In 2007, it represents 3.0 % of GDP on average in the EU[1] and was equal to or less than 4.0 % of GDP in all countries but five: Cyprus (6.9 %), Malta (6.7 %), Luxembourg (5.4 %), Czech Republic and Spain (4.8 %). After the inclusion of all other capital taxes, the revenue from the taxation of this factor reaches sometime more than 10.0 % of GDP in some Member States — Cyprus (14.2 %), Italy (11.8 %), United Kingdom (11.5 %), Malta (11.4 %); Luxembourg (11.3 %), Spain (11.2 %), and France (10.1 %). At 9.4 % on average for the EU, taxes on capital can be split up into those on corporate income (3.4 %), those on capital income of self-employed (2.1 %) and of households (1.0 %), and those on the stock of capital (wealth) (2.9 %).

There is a wide interest in the development of capital taxes. A number of reasons contribute to this interest. The mobility of capital[2] makes policymakers fear that excessive levels of taxation would scare away capital or hope to attract capital from other countries by offering an attractive tax treatment (so-called tax competition[3]). Like most taxes, taxes on capital may have distortive effects on the market[4], particularly in highly integrated areas like the EU Internal Market. These distortions may also impact the personal income taxes because taxes on capital reduce capital accumulation and therefore negatively impact productivity levels, which in turn depress wages. Next, the fact that capital is generally more mobile than labour has generated the apprehension that the burden of taxation would be shifted from the former to the latter. Equity considerations also feature prominently in the debate on the taxation of capital held by individuals given that capital is, as a rule, both more lightly taxed than labour income and often taxed at flat rates, which calls for an effective taxation of capital income to avoid emptying the progressivity of the income tax of its meaning. Next, recent substantial cuts in the corporate income rate have highlighted the risk that a comparatively light taxation of capital induces individuals to take on the legal form of corporation, only to avoid the payment of the personal income tax on their labour income (backstop function of the corporate income tax). Finally, the relative mobility of capital has stimulated the apprehension of tax competition and a subsequent race-to-the-bottom in capital tax rates.

1) See Table A.2.2_G in Annex A.

2) This mobility can assume different forms ranging from foreign direct investments to profit shifting.

3) See Nicodème (2007) for a recent review with a focus on the European Union.

4) Distortions come from the fact that taxes will deter economic activity. They are usually measured by the size of so-called deadweight losses, or excess burden of taxation. These represent a loss of economic efficiency that occurs when taxation creates a wedge between supply and demand by distorting price equilibrium. In other words, there is a loss of consumer and producer surpluses due to the fact that equilibrium is reached at a lower quantity of inputs.

Table II-4.1 Adjusted top statutory tax rate on corporate income
1995-2009, in %

																Difference	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1995-2009	2000-2009
BE	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	34.0	34.0	34.0	34.0	34.0	34.0	34.0	-6.2	-6.2
BG	40.0	40.0	40.2	37.0	34.3	32.5	28.0	23.5	23.5	19.5	15.0	15.0	10.0	10.0	10.0	-30.0	-22.5
CZ	41.0	39.0	39.0	35.0	35.0	31.0	31.0	31.0	31.0	28.0	26.0	24.0	24.0	21.0	20.0	-21.0	-11.0
DK	34.0	34.0	34.0	34.0	32.0	32.0	30.0	30.0	30.0	30.0	28.0	28.0	25.0	25.0	25.0	-9.0	-7.0
DE	56.8	56.7	56.7	56.0	51.6	51.6	38.3	38.3	39.6	38.3	38.7	38.7	38.7	29.8	29.8	-27.0	-21.8
EE	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	24.0	23.0	22.0	21.0	21.0	-5.0	-5.0
IE	40.0	38.0	36.0	32.0	28.0	24.0	20.0	16.0	12.5	12.5	12.5	12.5	12.5	12.5	12.5	-27.5	-11.5
EL	40.0	40.0	40.0	40.0	40.0	40.0	37.5	35.0	35.0	35.0	32.0	29.0	25.0	25.0	25.0	-15.0	-15.0
ES	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	32.5	30.0	30.0	-5.0	-5.0
FR	36.7	36.7	41.7	41.7	40.0	37.8	36.4	35.4	35.4	35.4	35.0	34.4	34.4	34.4	34.4	-2.2	-3.3
IT	52.2	53.2	53.2	41.3	41.3	41.3	40.3	40.3	38.3	37.3	37.3	37.3	37.3	31.4	31.4	-20.8	-9.9
CY	25.0	25.0	25.0	25.0	25.0	29.0	28.0	28.0	15.0	15.0	10.0	10.0	10.0	10.0	10.0	-15.0	-19.0
LV	25.0	25.0	25.0	25.0	25.0	25.0	25.0	22.0	19.0	15.0	15.0	15.0	15.0	15.0	15.0	-10.0	-10.0
LT	29.0	29.0	29.0	29.0	29.0	24.0	24.0	15.0	15.0	15.0	15.0	19.0	18.0	15.0	20.0	-9.0	-4.0
LU	40.9	40.9	39.3	37.5	37.5	37.5	37.5	30.4	30.4	30.4	30.4	29.6	29.6	29.6	28.6	-12.3	-8.9
HU	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	19.6	17.6	17.5	17.5	21.3	21.3	21.3	1.6	1.6
MT	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	0.0	0.0
NL	35.0	35.0	35.0	35.0	35.0	35.0	35.0	34.5	34.5	34.5	31.5	29.6	25.5	25.5	25.5	-9.5	-9.5
AT	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	25.0	25.0	25.0	25.0	25.0	-9.0	-9.0
PL	40.0	40.0	38.0	36.0	34.0	30.0	28.0	28.0	27.0	19.0	19.0	19.0	19.0	19.0	19.0	-21.0	-11.0
PT	39.6	39.6	39.6	37.4	37.4	35.2	35.2	33.0	33.0	27.5	27.5	27.5	26.5	26.5	26.5	-13.1	-8.7
RO	38.0	38.0	38.0	38.0	38.0	25.0	25.0	25.0	25.0	25.0	16.0	16.0	16.0	16.0	16.0	-22.0	-9.0
SI	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	23.0	22.0	21.0	-4.0	-4.0
SK	40.0	40.0	40.0	40.0	40.0	29.0	29.0	25.0	25.0	19.0	19.0	19.0	19.0	19.0	19.0	-21.0	-10.0
FI	25.0	28.0	28.0	28.0	28.0	29.0	29.0	29.0	29.0	29.0	26.0	26.0	26.0	26.0	26.0	1.0	-3.0
SE	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	26.3	-1.7	-1.7
UK	33.0	33.0	31.0	31.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	28.0	-5.0	-2.0
EU-27	35.3	35.3	35.2	34.1	33.5	31.9	30.7	29.3	28.3	27.0	25.5	25.3	24.5	23.6	23.5	-11.8	-8.4
EU-25	35.0	35.0	34.9	33.9	33.3	32.2	31.1	29.7	28.7	27.4	26.3	26.0	25.5	24.4	24.4	-10.7	-7.8
EA-16	37.5	37.6	37.7	36.4	35.8	34.9	33.5	32.1	30.7	29.8	28.4	28.0	27.1	26.0	25.9	-11.7	-9.0

Note: Only the 'basic' (non-targeted) top rate is presented here. Existing surcharges and averages of local taxes are included. Some countries also apply small profits rates or special rates, e.g., in case the investment is financed through issuing new equity, or alternative rates for different sectors. Such targeted tax rates can be substantially lower than the effective top rate. **Belgium**: a) A 3 % 'crisis' surcharge is applicable since 1993; b) since 1/1/2006 Belgium, applies a system of notional interest (ACE) which reduces the 'effective tax rate' with several percentage points, depending on the difference between the rate of return and the rate of the notional interest deduction. **Germany**: The rate includes the solidarity surcharge of 5.5 % and the average rate for the trade tax ('Gewerbesteuer', which is also an allowable expense for the purpose of calculating the income on which corporation tax is payable). From 1995 to 2000 the rates for Germany refer only to retained profits. For distributed profits lower rates applied. As from 2008 enterprises are subject to an overall tax burden of 29.8 % nominally. This is the result of the reduction of the corporate tax rate from 25 % to 15 % and the reduction of the base measure for trade tax from 5 % to 3.5 %. The adjusted top statutory tax rate is calculated with an average multiplier of 400 % for the trade tax. **Estonia**: As from 2000 the rate for Estonia refers only to the gross amount of distributed profits; the tax rate on retained earnings is zero. **France**: France applies a standard CIT rate of 33.5 %. Large companies (turnover over € 7 630 000 and taxable profit over € 2 289 000) are subject to an additional surcharge of 3.3 % levied on the part of aggregate corporate tax which exceeds € 763 000. An annual minimum lump-sum tax (IFA) based on turnover is payable when turnover is more than € 400 000. **Hungary**: From 1 September 2006, a solidarity surtax of 4 % is levied on most of the resident companies. A local business tax is maximum 2 %. An 'Innovation tax' of 0.3 % is due on the same base as the local business tax, but not for all companies. The corporate income tax in Hungary consists of three components: the standard CIT rate of 16 %, a local tax of maximum 2 % that applies on the gross operating profit (turnover minus costs) and which is deductible from the tax base, and a surcharge of 4 %. Starting from a gross operating profit of 100, companies would pay the local tax of 2. The tax base for the surcharge of 4% is the profit before tax, that is 98 (100 minus the local tax paid of 2). The surcharge amounts then to 3.92. Finally, the CIT base is calculated as the profit before tax of 98 minus the deductible local tax of 2, that is 96. the CIT rate of 16 % gives a tax of 15.36. In total, the tax paid is 15.36 + 3.92 + 2 = 21.28. This represents 21.714 % of the profit before tax of 98. **Ireland**: 25 % for non-trading income, gains and profits from mining petroleum and land dealing activities. Until 2003, Ireland applied a 10 % CIT rate to qualifying manufacturing and services companies. **Italy**: As from 1998 the rates for Italy include IRAP (rate 3.90 %), a local tax levied on a tax base broader than corporate income. The rate may vary up to 1 percentage point depending on location. **Lithuania**: a 'social tax' (applied as a surcharge) has been introduced in 2006 and 2007 (at 4 % and 3 % respectively). **Luxembourg**: basic local tax (municipal business tax) is 3% to be multiplied by a municipal factor ranging from 2 to 3.5. The rate in the table is for Luxembourg City. **Portugal**: As from 2007 the rate for Portugal includes the maximum 1.5 % rate of a municipal surcharge.

Source: Commission services

Table II-4.2 Adjusted top statutory tax rate on corporate income - EU v. third countries
1995-2009, in %

																Difference	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1995-2009	2000-2009
EU-27	35.3	35.3	35.2	34.1	33.5	31.9	30.7	29.3	28.3	27.1	25.5	25.3	24.5	23.6	23.5	-11.8	-8.4
Non-EU countries																	
OECD-6	37.6	38.1	38.1	38.0	37.0	35.3	34.2	33.5	33.2	32.8	32.4	32.4	32.4	32.5	32.5	-5.1	-2.8
AU	33.0	36.0	36.0	36.0	36.0	34.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0	-3.0	-4.0
CA	44.6	44.6	44.6	44.6	44.6	44.6	42.1	38.6	36.6	36.1	36.1	36.1	36.1	34.6	34.6	-10.0	-10.0
CH	28.5	28.5	28.5	27.5	25.1	24.9	24.7	24.4	24.1	24.1	21.3	21.3	21.3	21.3	21.3	-7.2	-3.6
JP	51.6	51.6	51.6	51.6	48.0	40.9	40.9	40.9	40.9	39.5	39.5	39.5	39.5	42.0	42.0	-9.6	1.1
NO	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	0.0	0.0
US	40.0	40.0	40.0	40.0	40.0	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.3	39.0	39.0	-1.0	-0.3
BRIC	38.9	34.9	34.9	34.9	34.0	35.9	35.4	31.7	31.9	31.7	31.9	31.2	31.2	29.2	28.3	-10.7	-7.6
BR	47.7	31.5	31.5	31.5	33.0	37.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	-13.7	-3.0
RU	35.0	35.0	35.0	35.0	35.0	35.0	35.0	24.0	24.0	24.0	24.0	24.0	24.0	24.0	20.0	-15.0	-15.0
IN	40.0	40.0	40.0	40.0	35.0	38.5	39.6	35.7	36.8	35.9	36.6	33.7	34.0	34.0	34.0	-6.0	-4.5
CN	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	25.0	25.0	-8.0	-8.0

Note: Rates are those applicable in capital city (e.g. Washington DC for the USA); Brazil applies a variant of an Allowance for Corporate Equity (only allowing the tax deduction of notional interest when it is actually paid out to shareholders as "interest on equity').

Source: Commission services; OECD Tax Database; KPMG Corporate Tax survey; IBFD; Deloitte domestic rates database; Ministries websites; World Tax database at office of tax policy research; Klemm, A. (2007), Allowances for Corporate Equity in Practice, CES

Table II-4.1 shows the statutory corporate tax rates for the EU Member States, while Table II-4.2 shows the statutory rate for six non-EU OECD countries and the BRIC (Brazil, Russia, India and China). Two trends were prominent in corporate taxation in the Union in the last decade:

- Firstly, the European Union countries moved towards lowering CIT rates, in one case even abolishing the tax altogether on retained earnings (Estonia). Taking local taxes and surcharges into account, the average general corporate tax rate in the EU-27 was reduced by 11.8 percentage points in the period 1995 to 2009. This reduction is however not a new phenomenon as cuts in corporate tax rates started as early as in the 1980s. We can however also see that the same trend towards lower statutory corporate tax rates also occurred — albeit less dramatically — in many third countries.

- Secondly, the scale of deductions and exemptions was reduced. This trend was also due to the Code of Conduct for business taxation (which has played a role in limiting preferential tax regime and therefore encouraged Member State to prefer adjusting the tax rate rather then the base) and to the necessity to conform to EU rules limiting State aid to enterprises (as some State aid may be in the form of tax breaks). There was also a tendency in many Member States in recent years to enlarge the corporate tax base via less generous depreciation rules and deductions[5)]. The Belgian ACE (allowance for corporate equity) forms a striking exception on the base broadening trend.

- Finally, the EU has by and large become a low-tax area when it comes to statutory corporate tax rates. The EU average of 23.5 % is lower than the statutory tax rate in all selected OECD countries and the BRIC, bar Switzerland and Russia.

An analysis of the combined impact of these changes based on the use of simple metrics, such as statutory tax rates or simple tax-to-GDP ratios, would however not give an accurate picture. National provisions for computing the taxable base to which the statutory tax rates are applied differ greatly across countries. The simple tax-to-GDP ratio, while superior to the statutory tax rates in describing the effective tax burden, fails to capture changes in the capital tax base[6)]. Moreover, the weight of the base (total taxable capital) on GDP may differ considerably between

5) Devereux et al. (2002) and Griffith and Klemm (2004) provide ground for this latter policy development. Their computations show that fiscal depreciation rules have indeed become less generous during the past two decades, especially for buildings.

countries. Hence, in this report we compute implicit tax rates (ITRs), which put each tax in relation to its respective tax base.

Taxes on capital are a complex class that includes a variety of taxes paid both by enterprises and households: stamp taxes, taxes on financial and capital transaction; car registration taxes paid by enterprises; taxes on land and buildings; the part of personal income paid on earnings from capital, taxes paid on income or profits of corporations and taxation of capital transfer such as inheritance taxes. It should be noted that under the definition used in this report, taxes raised on self-employment income are booked as taxes on capital, although stricto sensu earnings from self-employment include a return to labour as well as to capital. Given this complexity, one should be cautious in interpreting the available figures as the concept covers many sources of revenues that are of a different nature, and are earned by different recipients.

Next to the implicit tax rate on capital, the report contains three additional indicators of effective taxation: the implicit tax rate on capital and business income; the implicit tax rate on corporate income, and the implicit tax rate on capital and business income of households. The first indicator differs from the implicit tax rate on capital to the extent that it excludes the taxes on the stock of wealth. The last two look at the taxation of capital and business income of corporations and households respectively. Annex B provides the definitions as well as an extensive discussion of those indicators.

4.2. Implicit tax rates on capital: long-term trends

Although the ITR on capital is only available for the years starting from 1995, an indication of a longer-run trend starting from the 1970s can be gleaned from a broader indicator, namely the 'tax rate on other production factors' which was computed in previous editions of this report[7)]. The definition of both numerator and denominator was different, somewhat broader and the data were based on the national accounts format ESA79. In addition, the composition of the Union was also different.

As shown in Graph II-4.1 this indicator shows for the European Union[8)] an increase until the beginning of the 1980s. Afterwards, a slight decrease in the effective tax burden took place from the early to the mid-1980s, followed by a period of stabilisation from the late 1980s to the early 1990s. The methodology was subsequently refined and the national account systems also moved to the ESA95 format, thus the series are not directly comparable. However, it is worth noticing that the 'ITR on other factors of production' gave an indication of increasing taxation on capital starting from 1995. This trend is consistent with that of the ITR on capital computed starting from 1995 and based on the national accounts format ESA95. This indicator increases dramatically between 1995 and 2001, before showing a three-year decrease and a new rise since 2003. Interestingly, this evolution corresponds closely to the one of the business cycle[9)]. The methodology followed for the computation is described in Annex B.

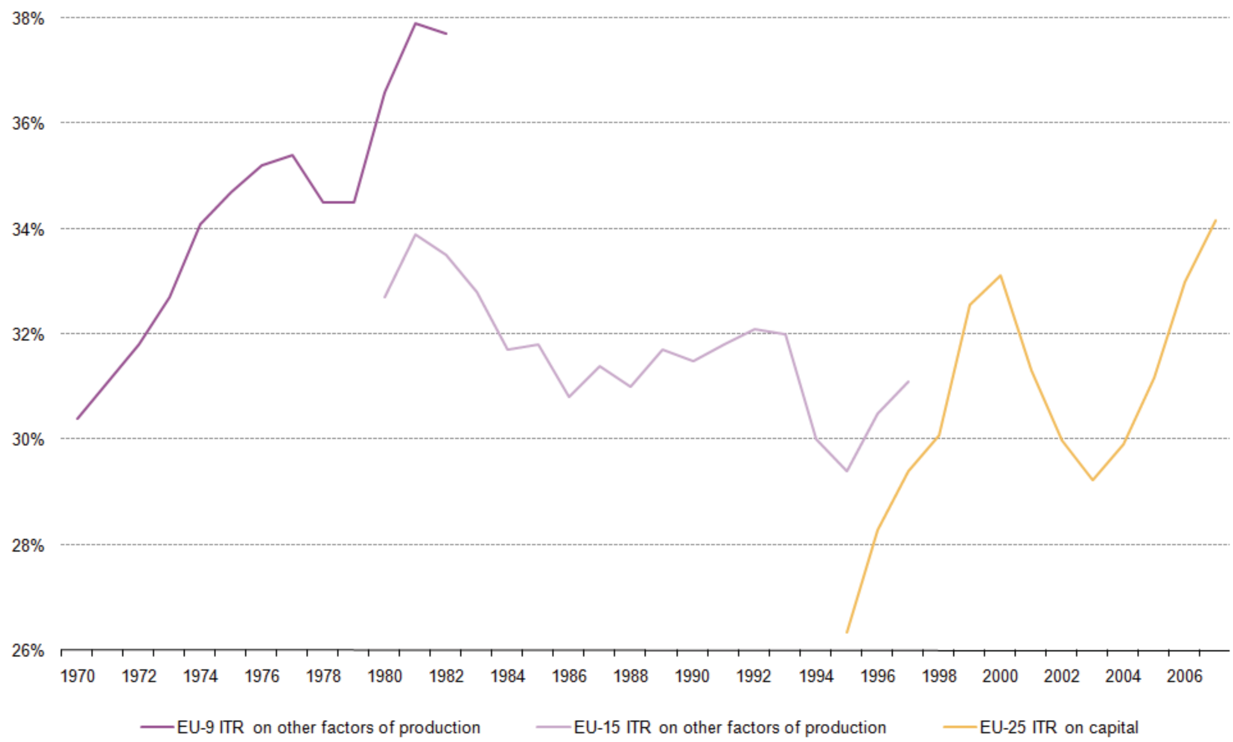
6) The rules on computing taxable income can be construed in such a way as to offer a strong incentive to foreign companies. For instance, allowing for the depreciation of buildings and the amortisation of intangibles and tangible fixed assets. Given that they incorporate such elements of the tax code in their modelling, effective average tax rates (EATRs) generally allow a more accurate analysis of these aspects, while suffering from other limitations linked to their forward looking nature. For details see European Commission (2001a). Jacobs et al. (2004) calculate the EATRs for a German parent company operating a subsidiary in each of the new Member States. Their work highlights the substantial differences in tax regimes: the spread between the EATR for, say, Malta and Lithuania is found to reach almost 20 percentage points.

7) European Commission (2000b).

8) The evolution of the ITR on other production factors depicted in the Graph is referred to the EU-9 (BE, DK, DE, IE, FR, IT, LU, NL and UK) from 1970 to 1980 and to the EU-15 afterwards.

9) The computation of the entire time series 2000–07 for the ITR on capital is possible only for seven of the NMS-12, namely the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Slovenia and Slovakia. Partial data are available for two other countries: Hungary and Poland.

Graph II-4.1 Implicit tax rate on other production factors and implicit tax rate on capital
1970–2007, in %



Note: All averages are GDP-weighted.

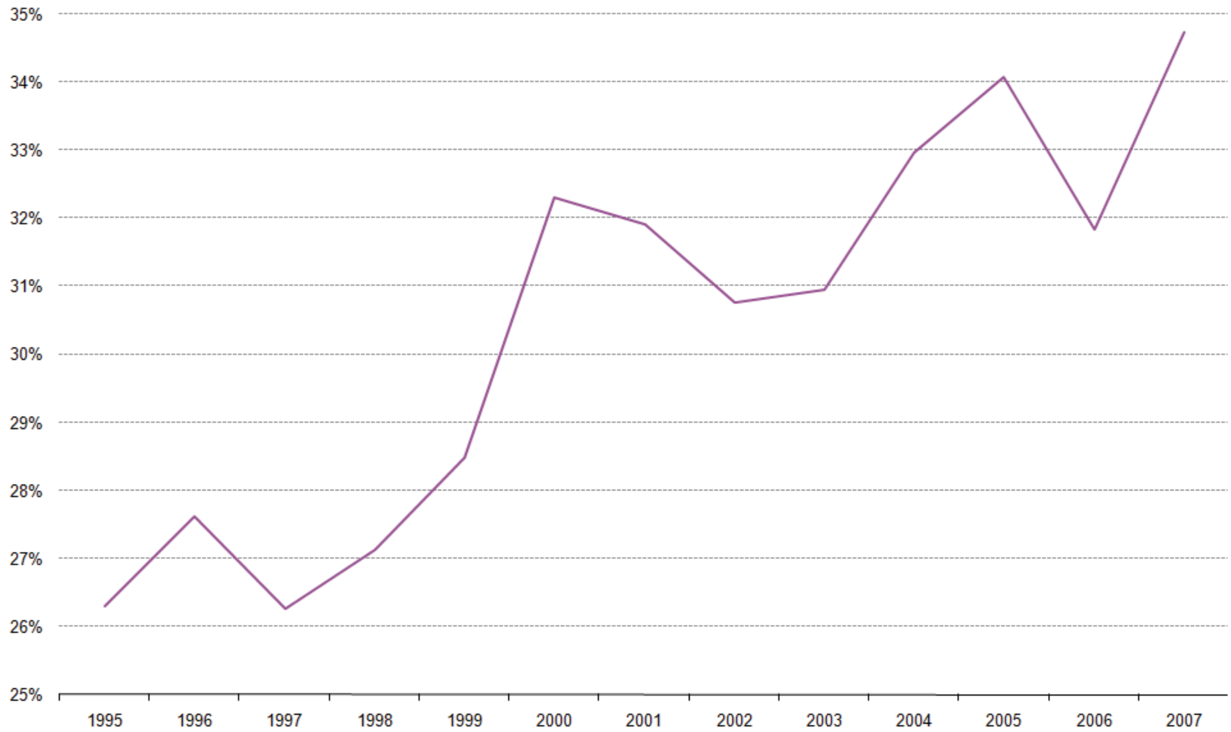
Source: Commission services

Table D.3 in Annex A shows the development of the ITR on capital for all the Member States and years available. Comparing 2000 and 2007, the overall ITR on capital decreased in seven Member States: Finland (– 9.3 percentage points), Sweden (– 7.5 percentage points), Slovakia (– 5.4 percentage points), Germany (– 4.5 percentage points), the Netherlands (– 4.5 percentage points), the United Kingdom (– 2.0 percentage points), and Austria (– 1.3 percentage points). In addition, the ITR for Greece decreased between 2000 and 2006, the latest year available. Alternatively, the ITR on capital has risen[10)] in other countries with some spectacular increases of 10 percentage points or more recorded in Cyprus and Spain. This difference in trends has unsurprisingly led to an increase in the dispersion of the ITR on capital as measured by the coefficient of variation[11)] (see Graph II-4.2). This may be prima facie unexpected given the increased integration of capital markets.

10) A more pronounced increase could be observed for the overall indicator when using a simplified denominator referring to the net operating surplus of the whole economy. Carey and Rabesona (2002) who used a similar (biased) denominator also reported increases in the implicit tax rate on capital. The reader should also bear in mind that, because of different methodologies explained in the annexes, the figures for Ireland and the United Kingdom might be biased upward. Other factors, which could affect/bias comparisons between Member States, are described in Annex B, Part D. Their importance differs between Member States according — for instance — to a different share of financial companies making capital gains. Data limitations prevent the computation of the ITRs for Bulgaria, Luxembourg, and Malta.

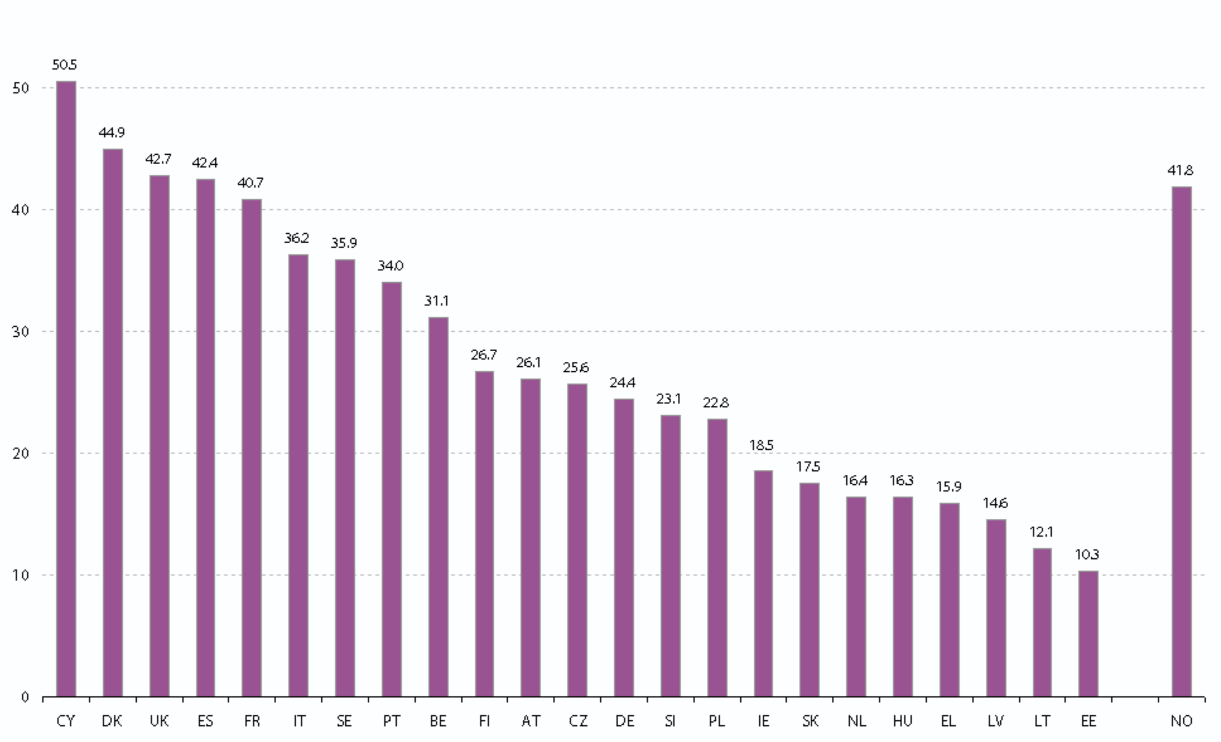
11) The coefficient of variation is defined as the ratio of the standard deviation on the weighted average of the sample.

Graph II-4.2 Coefficient of variation of the implicit tax rate on capital
Ratio between standard deviation and mean, in %



Source: Commission services

Graph II-4.3 Implicit tax rate on capital
2007, in %



Note: No data for Bulgaria, Luxembourg, Malta and Romania; data for Greece, Hungary and Poland refer to 2006.

Source: Commission services

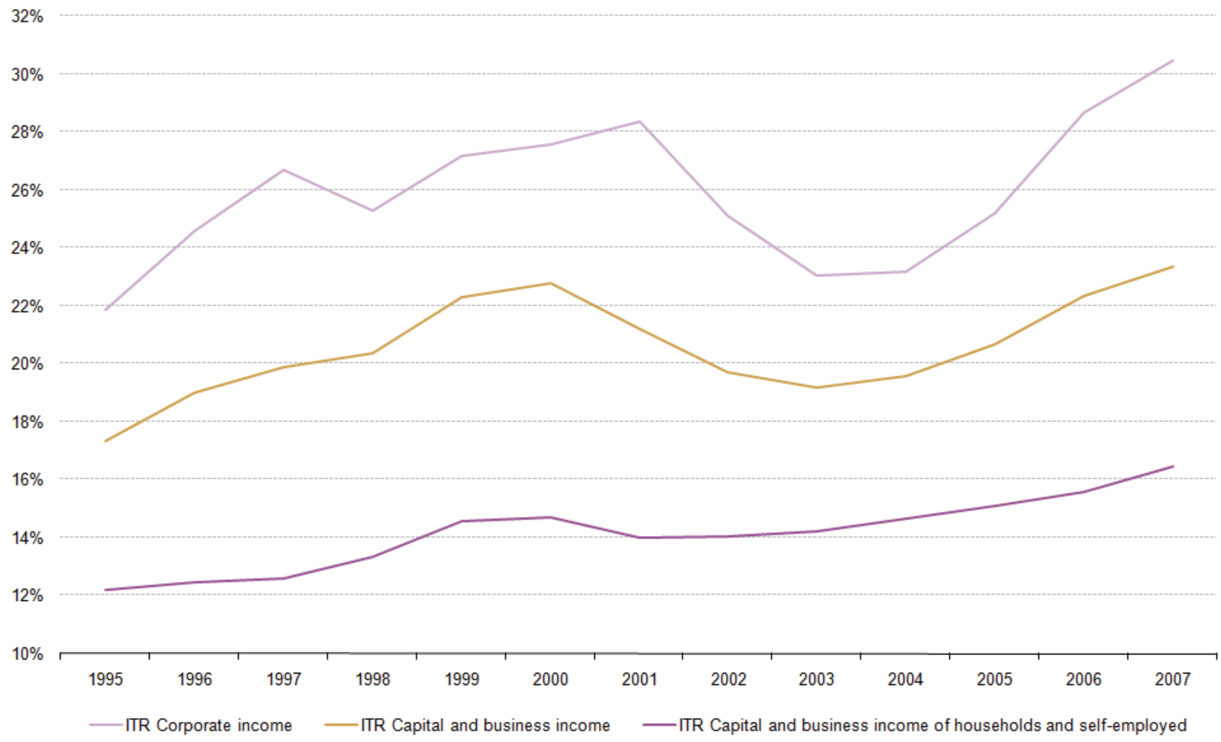
In terms of levels for 2007, Cyprus tops the ranking with an ITR on capital of 50.5 %. The values for Denmark, the United Kingdom, Spain, and France are above 40 %. At the other extreme of the scale, Estonia at 10.3 %, Lithuania at 12.1 % and Latvia at 14.6 % display very low levels of ITR on capital.

4.3. Implicit tax rates on capital and business income.

As explained in the introduction and detailed in the appendix, the implicit tax rate on capital and business income differs from the ITR on capital as it excludes the taxes on the stock of wealth. It can be broken down further into corporate income or capital and business income of households and the self-employed (in the form of rents, dividends, interest, insurance income, etc.)[12)].

12) No data are available for Bulgaria, Luxembourg, Malta and Romania. Data coverage for Greece, Hungary and Poland stops in 2006. In addition, the coverage of the last two ITRs is lower than for the ITR on capital and business income and some adjustments are necessary. In particular, estimates for Germany and Ireland are not available. For Austria and Portugal the ITR on corporate income represents the tax burden on all companies including the self-employed. This correction is necessary because of the sectoral mismatch in the recording of unincorporated partnerships in national accounts. The profits of partnerships, treated as quasi-corporations in national accounts, are booked in the corporations sector while the corresponding tax payments are recorded in the households sector, given that the owners of the partnership are taxed under the personal income tax scheme. In theory, also for Germany, where partnerships are an important part of companies, a similar correction could be calculated. However, owing to reservations regarding comparability with other Member States, it has been decided not to publish these results.

Graph II-4.4 Implicit tax rate on capital and business income in EU-25
1995–2007



Note: GDP-weighted averages of available sample.

Source: Commission services

The ITR on capital and business income for the EU-25 rose from 17.3 % in 1995 to 23.4 % in 2007. The increases for the ITRs for corporations and for households have been respectively from 21.9 % to 30.5 % and from 12.2 % to 16.5 %. From tables D.3.1 to D.3.1.2 in Annex A, the developments in the ITR on capital and business income for the period 2000-2007 show no clear general pattern in the 21 Member States for which data are available. Rather, one can distinguish five groups of countries:

Portugal and Sweden are the only two Member States that record a decrease in the ITR on capital and business income and its two components over the 2000-2007 period. In both cases, the ITR has however increased between 2006 and 2007.

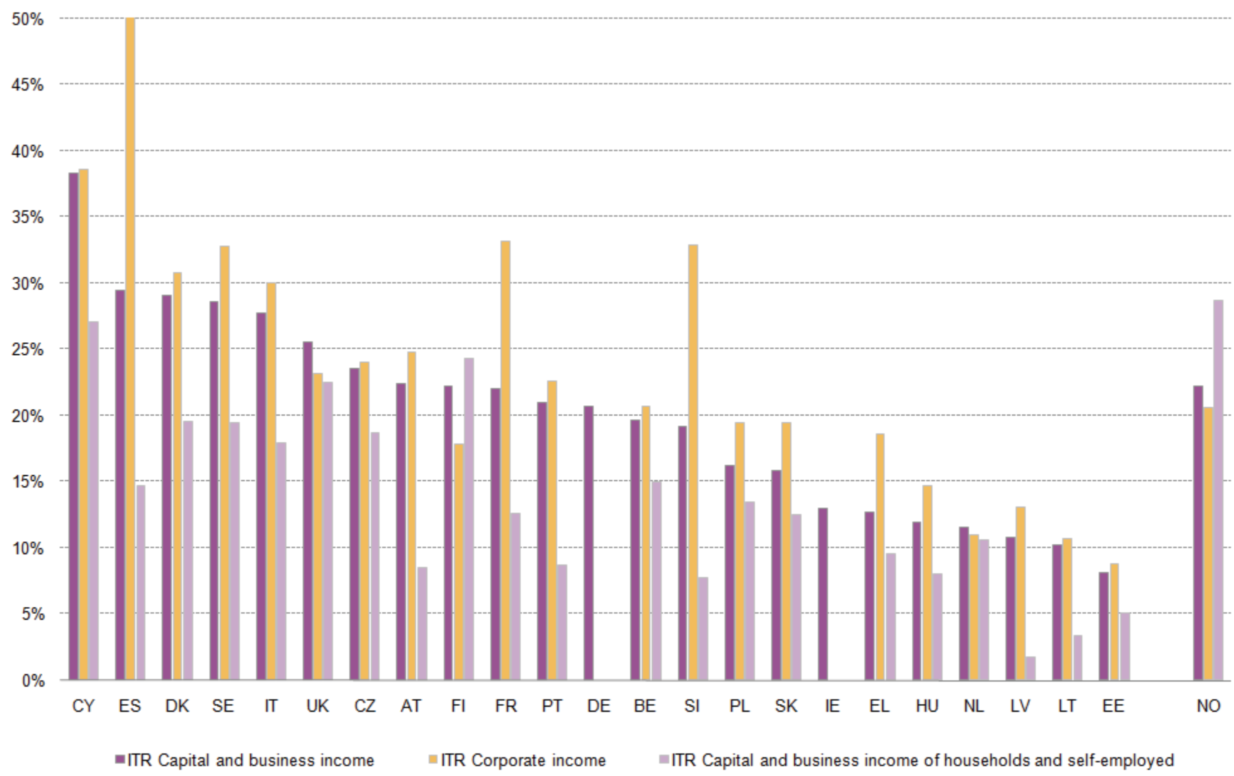
A second group of Member States have shown an increase in the ITR on capital and business income and its two components over the 2000-2007 period. Denmark, Estonia, Spain, Italy, Cyprus, Latvia, Lithuania and Slovenia widely differ however in their levels and trends.

The ITR on capital and business income has also risen in Belgium, Czech Republic and Poland, but it reflects an increase in the ITR on capital and business income of households and self-employed and a decrease in the ITR on corporate income between 2000 and 2007.

The opposite situation characterises France as its increased ITR on capital and business income is the conjunction of an increase in the ITR on corporate income and a decrease in the ITR on households.

Finally, the decrease in the ITR on capital and business income in Greece, Hungary, the Netherlands, Austria, Slovak Republic, Finland and the United Kingdom between 2000 and 2007 reflects an increase in the ITR on households and a decrease in the ITR for corporate income.

Graph II-4.5 Implicit tax rate on capital and business income
2007



Note: No data for Bulgaria, Germany, Luxembourg, Malta and Romania; data for Greece, Hungary, Poland and Portugal refer to 2006.

Source: Commission services

In terms of absolute levels, the most striking features are the very high levels of the ITR on corporate income in Spain, France, Slovenia and Cyprus, and its very low levels in the three Baltic Member States and the Netherlands. Interestingly, with a few exceptions, the ITR on corporate income is always higher than the ITR in capital and business income of households and self-employed.

4.4. Developments of the capital base

Finally, it is interesting to analyse the evolution of the capital base in the various Member States. Table II-4.3 provides the evolution of the denominator of the ITR on capital in percentage of GDP for each Member State. A first element is that this ratio varies for most Member States between 25 % and 35 % of GDP. At the low end, Denmark provides a low and constant ratio of about 20 % while at the high end the ratio of capital base to GDP in Ireland, Greece and the Netherlands is above 40 %.

Comparing this table with Table C.3_G on taxes on capital as percentage of GDP offers explanations for the evolution of the ITR on capital in the Member States for the most recent period.

A first group of countries have experienced a relatively stable ITR on capital over the most recent period 2000-2007. This is because both the taxes collected and the base have been increasing at the same pace (Belgium, Poland and to some extent France). A second group of countries has seen its ITR declining as the result of a growth in collection of taxes on capital as percentage of GDP that was inferior to the growth of the capital tax base in percentage of GDP. Those Member States are Germany, Austria and the United Kingdom. A third group of countries has also seen its ITR on capital decreased, but the cause was a decrease in the collection of taxes on capital in percentage of GDP, while the capital base in percentage of GDP was either stable or increasing. Those Member States are Greece, Netherlands, Slovakia, Finland and Sweden. Next, a fourth group has seen its ITR on capital increasing thanks to an increase in the ratio of capital taxes to GDP which was larger than the increase in the ratio of the capital tax base to GDP. This is the case for Check Republic, Ireland, Lithuania, Hungary, and Slovenia. Finally, some Member States have recorded increases in their ITR on capital, which is the combination of increased tax collection combined with stagnant or declining capital tax base in percentage of GDP. This situation occurred in Denmark, Estonia, Spain, Italy, Cyprus, and Latvia. In Portugal, both ratios decreased but a slower decrease in tax collection allowed the ITR to rise.

Table II-4.3 Capital tax base to GDP
1995-2007, in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
BE	34.4	33.5	33.1	32.8	30.9	32.5	31.8	30.3	28.9	29.6	30.6	31.8	32.2
BG	-	-	-	-	-	-	-	-	-	-	-	-	-
CZ	27.8	27.3	27.1	29.9	29.9	29.5	30.1	29.0	29.1	29.8	30.8	31.9	32.6
DK	21.3	20.4	20.1	17.8	17.9	20.1	19.4	20.0	17.9	17.8	20.2	19.9	17.3
DE	24.9	24.9	25.6	25.6	24.5	24.0	24.2	24.7	25.2	26.7	28.1	29.5	29.8
EE	23.5	27.0	27.1	30.0	31.3	31.2	32.0	32.2	32.0	31.2	30.8	29.2	25.5
IE	-	-	-	-	-	-	-	50.2	50.0	48.4	45.9	48.5	50.6
EL	-	-	-	-	-	49.0	47.2	46.4	46.5	46.1	45.8	45.0	-
ES	-	-	-	-	-	29.4	29.4	29.2	28.7	28.3	27.7	26.7	26.5
FR	25.5	25.0	25.4	26.1	25.4	25.7	25.8	24.9	24.6	24.5	24.1	24.5	24.9
IT	41.7	42.4	39.9	37.9	36.7	37.0	37.4	35.7	35.1	35.1	33.9	32.8	32.7
CY	39.3	39.5	36.0	39.3	40.4	41.6	41.7	39.5	33.9	33.6	33.4	32.8	28.2
LV	18.2	20.7	22.5	19.1	20.5	25.9	29.0	31.9	30.6	31.5	28.9	27.6	27.2
LT	39.2	37.8	35.3	32.5	30.5	32.0	34.3	34.5	35.8	36.2	36.3	34.3	31.8
LU	-	-	-	-	-	-	-	-	-	-	-	-	-
HU	-	-	-	-	-	27.3	27.2	28.1	27.4	27.4	27.2	29.5	-
MT	-	-	-	-	-	-	-	-	-	-	-	-	-
NL	32.5	33.4	36.1	35.2	35.1	37.5	37.3	31.6	32.4	34.0	40.5	41.5	43.3
AT	23.5	23.9	24.2	24.7	24.0	25.2	24.0	24.7	24.9	26.1	28.0	27.9	27.7
PL	36.1	34.0	33.6	34.1	32.4	34.9	34.0	34.6	35.7	39.3	38.8	38.2	-
PT	29.5	28.4	26.6	25.8	25.4	23.8	23.6	23.1	23.5	23.9	22.6	22.0	22.5
RO	-	-	-	-	-	-	-	-	-	-	-	-	-
SI	-	-	-	-	-	18.9	18.6	19.9	20.8	20.7	21.1	22.5	22.9
SK	30.8	29.3	28.7	28.4	29.9	30.1	32.4	31.3	30.6	33.9	33.1	35.9	37.1
FI	20.6	20.7	22.9	24.3	25.0	27.6	30.8	27.9	26.4	27.1	26.5	29.9	29.4
SE	24.2	21.7	21.9	20.7	19.7	19.3	18.0	17.6	17.4	21.1	19.7	25.2	20.3
UK	25.8	27.3	27.9	27.6	25.3	24.4	23.9	24.3	26.5	26.1	26.3	26.6	26.8
NO	-	-	-	-	-	-	-	*27.3*	*29.0*	*31.9*	*36.2*	*36.5*	*34.3*

Source: Commission services

5

Trends in environmental taxes

5. Trends in environmental taxes

5.1. Revenue development and structure

The introduction of environmental tax reforms gained increasing support during the 1990s. The basic idea was to shift the tax burden from the production factor labour towards the use of natural resources and environmentally harmful goods and activities. With the publication of Jacques Delors' White Paper on Growth, Competitiveness and Employment in 1993 the idea of such a fiscal reform became politically attractive, as it offered a means to promote simultaneously growth and jobs and environmental protection, in other words, to achieve a 'double dividend'. At the same time, measures needed to be taken to protect producers from any negative effect on competitiveness arising from increases in the cost of inputs, most particularly energy. Offsetting these cost increases through various tax reduction and refund schemes has indeed been one of the key features of the 'green' tax reforms that many Member States have introduced over the last decade. Among others, Denmark, Germany, the Netherlands, Sweden, Finland and the United Kingdom have introduced elements of such fiscal reforms. Some new Member States, too, have followed suit; one example is Slovenia, where a CO_2 tax is applied to all energy products since 1997. In Estonia the increases of excise duties have been used to finance substantial cuts of personal income taxes in the last few years. The Czech Republic introduced an environmental tax reform in 2008, which would increase the tax rates of most energy products over the period 2008–2012 and would use the tax revenues to support the state employment policy. The idea of using environmental taxation to promote the EU economic and environmental policy objectives has been endorsed also in many strategies and actions taken at the EU level[1)].

Despite this interest, environmental tax revenues have not been growing in recent years at the EU average level. In 2007, revenues from environmental taxes in the EU-27 (in the GDP-weighted average) accounted for 2.5 % of GDP and for 6.2 % of total revenues. Compared to 1980, when environmental taxes accounted for 0.5 % of GDP[2)], the increase is significant. However, in the EU-15, the main increase took place between 1990 and 1994 and was largely driven by the above-average increase of energy taxes. In the new Member States the increase in environmental taxes took place later and was to a large extent driven by the EU accession process, although some of them made use of the occasion to increase energy tax levels beyond the strict requirement of the EU provisions (see above). Since the year 1999 environmental tax revenues, in the weighted average, have decreased both in relation to GDP and as a share of total taxation (by – 0.3 % and – 0.8 % respectively). This development measured at the weighted EU average level reflects, however, largely the trend in the big EU Member States. In fact, the share of environmental taxation out of total taxation has increased since 1995 in a number of the EU Member States (Denmark, Estonia, Latvia, Netherlands, Austria, Poland and Slovakia). In many of them environmental taxation has been one of the means to finance the cuts in personal income taxation in accordance with the principles of a 'green' tax reform.

To understand the fall of environmental tax revenues in relation to GDP it should be kept in mind that environmental taxes are levied per unit of physical consumption (unit taxes) and usually fixed in nominal terms. Hence, unlike ad valorem taxes, their real value in relation to GDP tends to fall, unless they are adjusted for inflation or otherwise increased at regular intervals. The problem could be easily solved by indexing the nominal tax rates to inflation, but so far only one Member State, Denmark, has used this option. There may be several reasons for the real value erosion of environmental taxation. First, energy demand has a tendency to grow slower than income, which

1) It is one of the basic principles of the EU Sustainable Development Strategy, adopted in Gothenburg in 2001, that prices should reflect the real economic, social and environmental costs of products and services. To get prices 'right' in this sense the market-based instruments should be used. In the area of energy taxation, Council Directive 2003/96/EC of 27 October 2003 provides a common framework for taxing energy products and electricity in the Community. In 2007, the Commission presented a Green Paper on market-based instruments for environmental and policy purposes (COM(2007) 140 final), which sets the scope for the restructuring the Energy Tax Directive to better reflect the EU energy and climate policy objectives and make energy taxation more compatible with other market-based instruments, in particular the EU emissions trading scheme.

2) European Commission (1996b, p. 60).

implies that the share of taxes paid on energy goes down, when the economy grows. Secondly, energy tax increases in recent years, may have also reduced energy consumption and thus eroded the tax base of energy taxation, although the expenditure on energy as such may not have decreased. Thirdly, the governments may be simply unwilling to constantly increase the tax rates on products, which affect the energy costs of households and industry. There was no compelling cause to do so either, as the EU minimum rates on mineral oils was kept constant from 1992 to 2004, when the Energy Tax Directive (2003/96/EC) came into force. The growing popularity of non-fiscal instruments such as emissions trading, and high world prices for oil in the early 2000s might also have led to a reduced appetite for additional environmental taxation, at least as far as energy is concerned.

Table II-5.1 Environmental tax revenues in the Union
1995–2007, in % of GDP

														Difference[1)]	
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1995-2007	2000-2007
BE	2.2	2.5	2.5	2.4	2.5	2.3	2.3	2.2	2.3	2.4	2.3	2.2	2.1	-0.1	-0.2
BG	-	-	-	-	2.3	2.5	2.8	2.2	3.0	3.4	3.1	3.1	3.4	-	1.0
CZ	2.9	2.7	2.5	2.4	2.6	2.6	2.6	2.5	2.6	2.6	2.7	2.6	2.5	-0.4	-0.1
DK	4.5	4.8	4.9	5.3	5.4	5.3	5.2	5.4	5.2	5.6	6.0	6.2	5.9	1.4	0.6
DE	2.3	2.2	2.2	2.1	2.3	2.4	2.5	2.5	2.7	2.5	2.5	2.4	2.2	-0.1	-0.1
EE	1.0	1.5	1.6	1.9	1.7	1.7	2.1	2.0	1.9	2.1	2.3	2.2	2.3	1.3	0.6
IE	3.1	3.1	3.0	3.0	3.0	2.9	2.3	2.3	2.3	2.5	2.5	2.5	2.4	-0.6	-0.4
EL	3.1	3.1	3.1	2.9	2.7	2.3	2.5	2.3	2.2	2.1	2.1	2.0	2.0	-1.1	-0.3
ES	2.2	2.2	2.1	2.3	2.3	2.2	2.1	2.1	2.1	2.0	1.9	1.9	1.8	-0.4	-0.4
FR	2.7	2.8	2.6	2.6	2.6	2.4	2.3	2.5	2.5	2.4	2.3	2.3	2.1	-0.6	-0.3
IT	3.5	3.4	3.4	3.3	3.4	3.1	3.0	2.8	2.9	2.8	2.7	2.7	2.6	-1.0	-0.5
CY	2.9	2.8	2.5	2.5	2.5	2.7	3.0	2.9	3.7	4.0	3.5	3.3	3.4	0.6	0.7
LV	1.2	1.7	2.2	3.0	2.5	2.4	2.2	2.3	2.5	2.6	2.7	2.4	2.1	0.8	-0.3
LT	1.9	1.9	2.2	2.6	2.9	2.4	2.5	2.8	2.8	2.7	2.3	1.8	1.8	-0.1	-0.6
LU	3.0	2.9	3.0	2.9	2.8	2.8	2.8	2.8	2.8	3.0	3.0	2.6	2.6	-0.3	-0.1
HU	3.0	2.9	2.9	3.4	3.3	2.9	2.8	2.8	2.6	2.7	2.7	2.8	2.9	-0.1	-0.1
MT	3.2	3.1	3.5	3.9	4.1	3.7	3.7	3.4	3.4	3.1	3.3	3.4	3.7	0.6	0.1
NL	3.6	3.8	3.8	3.8	3.9	3.9	3.8	3.7	3.7	3.9	3.9	4.1	3.9	0.2	0.0
AT	2.1	2.1	2.4	2.3	2.3	2.4	2.6	2.7	2.7	2.7	2.6	2.5	2.4	0.3	0.0
PL	1.8	1.9	1.8	1.8	2.1	2.1	2.1	2.4	2.5	2.6	2.7	2.8	2.7	0.9	0.6
PT	3.5	3.5	3.3	3.5	3.4	2.7	3.0	3.2	3.1	3.1	3.1	3.0	2.9	-0.6	0.2
RO	-	-	-	3.0	3.9	3.5	2.4	2.1	2.4	2.4	2.0	1.9	2.1	-	-1.4
SI	4.2	4.4	4.5	5.1	4.2	2.9	3.3	3.3	3.3	3.3	3.2	3.0	3.0	-1.2	0.1
SK	2.3	2.1	2.1	1.9	2.0	2.2	1.9	2.4	2.6	2.7	2.6	2.4	2.3	-0.1	0.1
FI	2.9	3.1	3.3	3.3	3.4	3.1	2.9	3.0	3.2	3.2	3.1	3.0	2.8	-0.2	-0.4
SE	2.8	3.1	2.9	3.0	2.8	2.7	2.8	2.8	2.9	2.8	2.8	2.7	2.6	-0.1	-0.1
UK	2.9	2.9	2.9	3.1	3.1	3.0	2.8	2.7	2.7	2.6	2.5	2.4	2.5	-0.4	-0.5
NO	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*3.3*	*3.2*	*3.2*	*3.0*	*3.0*	*2.9*	*-*	*-*
EU-27 averages															
weighted	-	-	-	-	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.5	2.5	-	-0.3
arithmetic	-	-	-	-	3.0	2.8	2.7	2.7	2.8	2.9	2.8	2.7	2.7	-	-0.1
EU-25 averages															
weighted	2.8	2.8	2.7	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.5	-0.3	-0.3
arithmetic	2.8	2.8	2.8	3.0	3.0	2.8	2.8	2.8	2.8	2.9	2.8	2.8	2.7	-0.1	-0.1
EA-16 averages															
weighted	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.6	2.7	2.6	2.5	2.5	2.4	-0.4	-0.3
arithmetic	2.9	2.9	2.9	3.0	3.0	2.8	2.7	2.8	2.8	2.9	2.8	2.7	2.6	-0.3	-0.1

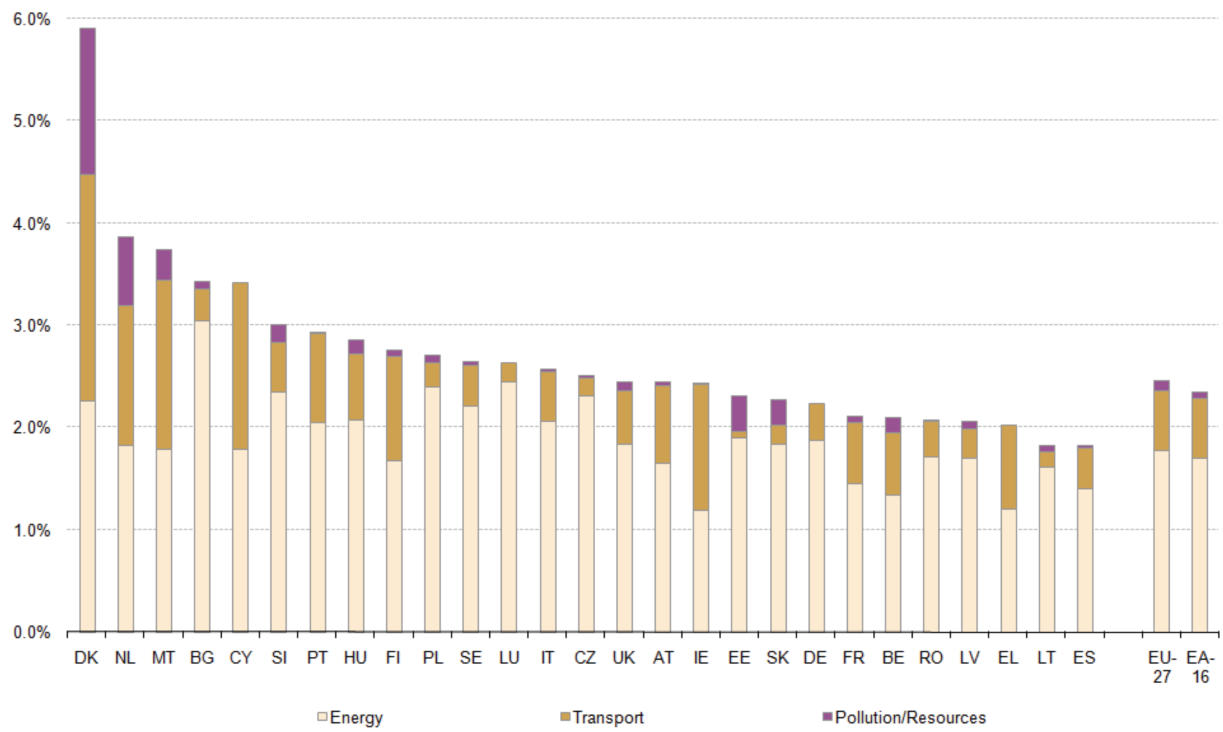
Source: Commission services

Environmental taxes can be divided into four broad categories (energy, transport, pollution and resource taxes; see Annex B for details). Energy taxes are by far the most significant, representing around three quarters of environmental tax receipts and around one twentieth of total taxes and social contributions. In the EU-27, transport taxes correspond to, on average, slightly less than one quarter of total environmental tax revenues and 1.5 % of total taxes and social contributions (in the weighted average). The remaining two categories, pollution taxes and resource taxes, raise only a marginal amount of revenue: together they make up just 4 % of total environmental taxes.

Graph II-5. 1 shows the environmental tax-to-GDP ratio by Member State and breaks it down by type of tax. The relative importance of each type varies across countries, but in general, most Member States tend to fall in a band ranging from 2 % to 3 % of GDP, or slightly higher. Only two Member States show levels below 2 % of GDP, while in three countries environmental tax revenues exceed 3.5 % of GDP. At 5.9 % in 2007, Denmark displays by far the highest level of 'green' taxes followed by the Netherlands (3.9 %). The lowest environmental tax revenues in relation to GDP are instead found in Lithuania and Spain, both below 2 % in 2007.

The predominance of energy taxes is common to most Member States; however, in some countries the contribution of transport taxes is significant: for instance, in Ireland, Cyprus and Malta they account for around half of environmental taxes. In Denmark, transport taxes raise almost the same amount of revenue as energy taxes, but on account of the high level of pollution and resource taxes in that country, constitute only a good third of environmental taxes.

Graph II-5.1 Environmental tax revenues by Member States and type of tax
2007, in % of GDP, weighted averages

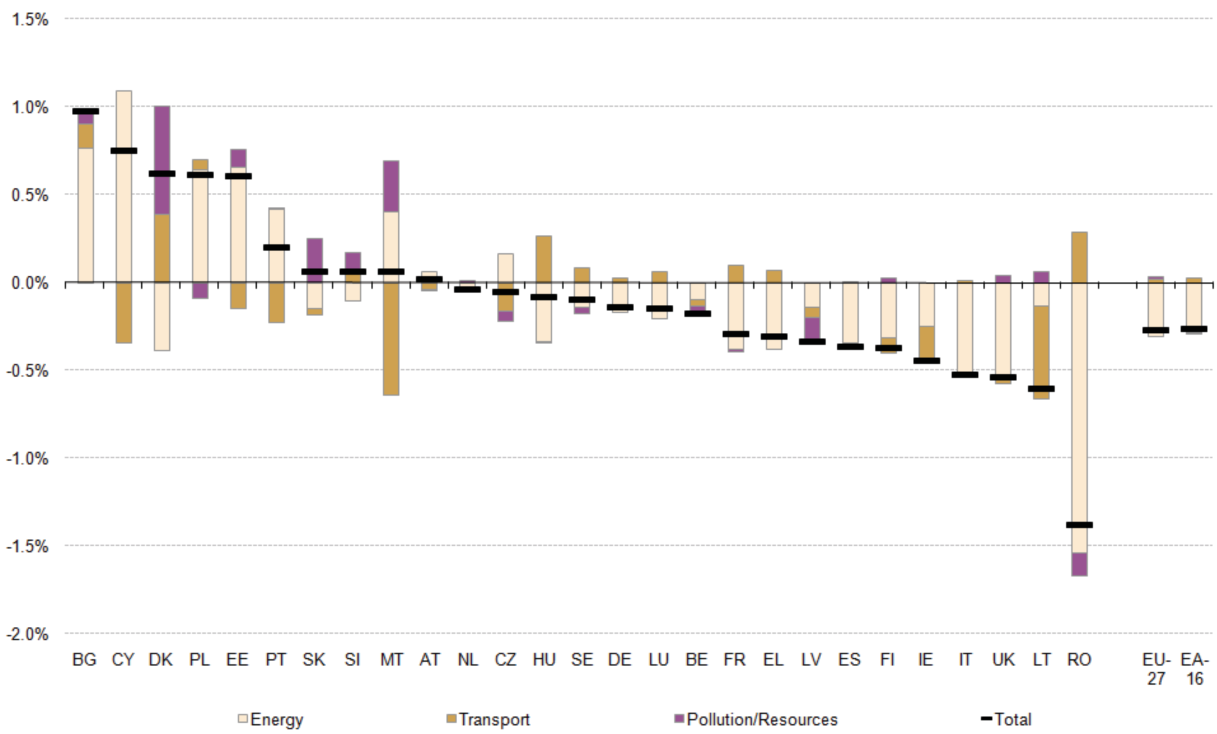


Source: Commission services

In the 1995–2007 period the levels of environmental taxation in the EU-15 and the new Member States converged. While several of the old Member States showed moderate declines in their tax-to-GDP ratio, leading to a decline in the EU-27 average, many new Member States, which initially had lower environmental taxes, witnessed a general increase in their level with an average increase of well above half a percentage point (see Table II-5.1).

Graph II-5.2 shows the evolution in the structure of environmental taxes between 2000 and 2007. The graph highlights that the moderate decrease in the EU average conceals a number of opposing changes in composition in some Member States. For instance, the overall slight decline in energy taxation should be put in the context of marked increases in several countries; in one of them (Bulgaria) the increase is about 1 % of GDP, and in four others (Cyprus, Denmark, Poland and Estonia) well above 0.5 % of GDP. On the other hand, there has been a strong decrease of energy taxes in Romania amounting to 1.4 % of GDP. Amongst the biggest changes in non-energy taxes, it is worth highlighting the steep increase in pollution taxes in Denmark, due to the strong increase in corporate hydrocarbon taxes, and in Malta, where the decrease of transport taxes is more than offset by increases in energy and pollution/resource taxes.

Graph II-5.2 Evolution of the structure of environmental taxes
2000–2007, differences in % of GDP, weighted averages



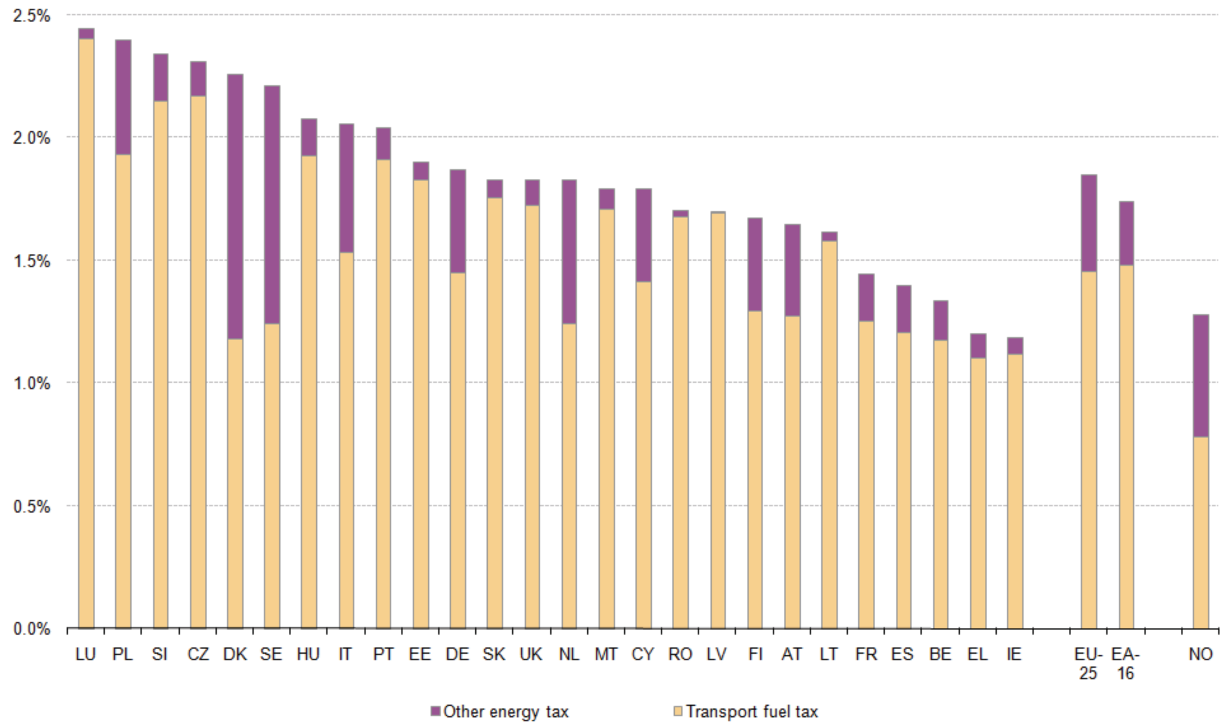
Source: Commission services

5.2. Transport fuel taxes

Energy taxes comprise taxes for both transport and stationary use of energy products. Graph II-5.3 shows the energy tax-to-GDP ratio by Member State and displays which share is stemming from transport fuel taxes. The graph highlights that the vast majority of energy taxes is levied on transport fuels.

The predominance of transport fuel taxes is particularly striking for the new Member States; most of which levy well above 90 % of their energy taxes on transport fuels. The exceptions are Cyprus and Poland, who — in line with the old Member States — only collect about 80 % of energy taxes on transport fuels. The relative homogeneity with respect to high transport fuel shares in energy taxation in the new Member States is explained by the fact that they enjoy exemptions or at least considerably reduced rates from the minimum excise duty for the taxation of other products in the category energy taxes such as electricity and natural gas (Council Directive 2004/74/EC). As electricity and natural gas are hardly taxed their energy tax revenue from any other source but mineral oil taxes is very low. Poland represents the exemption with a tax rate exceeding the minimum excise duty on electricity by 10 times; it generates more than 10 % of its energy tax revenues on taxation of electricity.

Graph II-5.3 Energy tax revenues by Member States
2007, in % of GDP



Note: Romania: 2006. Bulgaria: no data available

Source: Commission services

In contrast to the new Member States, the relative importance of fuel taxes varies considerably across the old Member States. The band spreads from a fuel tax revenue share in energy taxes of above 90 % for Ireland, Greece, Portugal and the United Kingdom to only slightly above 50 % for Denmark and Sweden. The difference in the shares is due to the tax revenues on natural gas and electricity. While the latter two countries receive significant revenues from taxes on electricity and natural gas (about 30 % of energy taxes), Ireland, Greece, Portugal and the United Kingdom only collect negligible revenues on these items (less than 2 % of energy taxes). Hence, differences in the taxation of natural gas and electricity still persist, despite the attempt to reduce differences in the level of taxation in Member States by the introduction of minimum tax rates on energy products and electricity in the Energy Tax Directive (2003/96/EC). The difference results from the choices made by the individual Member States. While Denmark exceeds the minimum excise duty on electricity by more than 150 times (Sweden still by 60 times), the other countries enjoy derogations for compliance with the minimum excise duty, reflected in zero tax rates. Zero excise duty rates do not necessarily imply that no taxes are levied on the use of electricity at all. Some of these countries like the United Kingdom levy more general taxes like a climate change levy, taxing 'energy products for lighting, heating and power for the business and public sector', also comprising the tax on electricity.

Focusing on mineral oil taxes only, which account for the major part of energy taxes, reduces the differentiation between old and new Member States. Most of the EU Member States raise the largest part (more than 90 %) of their mineral oil taxes on the transport use of these fuels.

This is nothing but the mirror image of the minimum excise tax rates set up in the Energy Tax Directive (2003/96/EC). Minimum tax rates for petrol, which is almost exclusively used for transport purposes, are the highest among all products covered by this Directive. On the other hand, minimum rates for heavy fuel oil, used for heating purposes, are very low. Tax rates for product categories, which are used for both transport and stationary purposes, are heavily diversified. The minimum excises duty for e.g. gas oil used as a propellant is almost 15 times higher than if it is used for stationary purposes. Hence, even for countries, which use only about 60 %–80 % of the final energy consumption of diesel/gas oil for transport purposes, their revenue on the transport use of fuels is usually well above 90 % of total tax revenues on diesel/gas oil. Of course, the exact revenue shares depend on how the individual Member States chooses its tax rate in line with the minimum rates. While some countries do not vary the rates according to different use at all (Czech Republic, Greece, Hungary, Romania) others use the full spread available (Belgium, Latvia, Luxembourg).

Even though the shares of transport fuel taxes in energy taxes vary considerably between countries, the shares are relatively stable over time within countries. Strong fluctuations are only observed for Cyprus, the Netherlands and Romania. For most countries, time series are too short to identify a trend in the share of transport taxes in energy taxes. Only for Belgium the share of transport taxes in energy taxes is decreasing which is mainly due to the introduction of the 'federal contribution on electricity and natural gas'. The increasing share in transport fuel taxes in Slovenia is the result of decreasing importance of other energy taxes.

5.3. The implicit tax rate on energy; properties and trends

A high ratio of environmental tax revenue to total taxation as such does not necessarily represent an indication of a high priority being attributed to environmental protection. Energy taxes were originally used purely as revenue raising instruments, without environmental purposes. Furthermore, the level of this indicator also says nothing about the achievement of environmental policy goals, as revenue increases could conceivably result from changes in the economy towards production and consumption patterns that are resource intensive and lead to even higher pollution.

Moreover, if green taxes act as an efficient disincentive, they will over time reduce the recourse to environmentally harmful goods and thereby erode the tax base, leading to a gradual fall in revenue. In addition, if tax breaks on environmentally friendly products or processes are granted, the same objective — protecting the environment — results in lower tax revenues. In either case we would witness a falling tax-to-GDP ratio for environmental taxes despite an increase in environmental protection.

It is also worth pointing out that the decrease in environmental tax revenues on GDP in recent years could be due in part to innovations in policy instruments. An example of this could be represented by an increased recourse to road pricing systems accompanied by a reduction in lump sum car circulation taxes, which would lead to lower tax revenues, since road charges are not booked as taxes. Another example of innovative instruments is the EU CO_2 emissions trading system, which is likely to 'crowd-out' energy taxation in the sectors covered by the scheme.

The paradoxes outlined above suggest the introduction of an effective or implicit tax rate (ITR) for environmental taxes for analytical purposes. The interpretation of an ITR is generally more straightforward because this class of indicators is not affected by the erosion in the base due to the disincentive effect of the tax; a properly defined implicit tax rate would remain constant[3)].

Constructing an implicit tax rate for environmental taxes overall is a daunting task: there is no easily identifiable denominator for the ratio because the diversity of environmental taxes leads to a multiplicity of bases. However, for energy taxes, which, as mentioned above, represent three quarters of environmental tax revenues, an appropriate indicator for the potential tax base can be identified. Eurostat publishes data on final energy consumption by

3) Although even this indicator has its weaknesses; for instance, environmental policies that have the consequences of reducing tax revenue, such as the emissions trading or road pricing schemes mentioned in the previous paragraph, would still lead to a (misleading) decline in the indicator.

country, aggregating the different sources of energy utilised in a single indicator.[4)] The data include energy consumed in the transport, industrial, commercial, agricultural, public and households sectors excluding the energy transformation sector and to the energy industries themselves. The various energy sources are aggregated on the basis of their net calorific value, and expressed in tonnes of oil equivalent; this measure is taken as the denominator of the ITR on energy published in this report, while the numerator is constituted by the revenue from all energy taxes.

This indicator is an appropriate measure of the policy stance in terms of taxation. Note that the ITR on energy treats equally all kinds of energy consumption, regardless of their environmental impact; an energy unit produced from hydroelectric power has the same weight as a unit produced from coal. In many countries, however, renewable energy sources are subject to lower tax rates than exhaustible energy sources, or altogether exempted in order to provide incentives to switch from fossil fuels towards these more environmentally-friendly sources of energy. Thus, paradoxically, a country with a large share of renewable energy will have a lower ITR on energy than a country, which relies largely on carbon-based energy sources.

Table II-5.2 shows the amount of energy tax, in euro, levied per unit of final energy consumption. In recent years, Denmark displays the highest ratio by a wide margin, followed by Italy, the United Kingdom and Sweden. Generally, the new Member States display markedly lower levels of taxation. However, all of the Member States in this group have been increasing energy taxes significantly; Cyprus, Poland and Estonia, in particular, show a very high growth compared with 1995. Cyprus and Slovenia are the new Member states with the highest absolute level of taxation.

4) At the data cut-off date, data was available up to 2006.

Table II-5.2 Energy tax revenues in relation to final energy consumption (nominal ITR on energy)
Euro per tonne of oil equivalent

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Difference[1)] 1995-2006	2000-2006
BE	91.7	90.9	90.7	91.2	92.5	92.5	92.4	97.6	97.4	109.4	116.3	115.2	23.5	22.6
BG	-	-	-	-	29.0	36.4	46.2	37.4	49.4	64.1	62.0	67.8	-	31.5
CZ	39.0	41.6	42.0	46.0	52.0	55.9	65.5	74.6	73.4	81.7	96.8	103.3	64.4	47.5
DK	202.9	216.5	221.7	251.4	289.6	313.7	326.1	336.0	335.7	337.0	332.9	329.2	126.2	15.5
DE	168.3	151.9	149.6	150.3	177.5	192.7	200.4	211.6	225.3	219.0	212.8	209.7	41.4	17.0
EE	6.5	13.4	17.9	30.5	30.8	32.2	44.2	45.9	51.0	63.4	77.4	86.9	80.4	54.7
IE	112.2	121.0	139.4	140.4	144.6	140.5	123.7	147.3	152.1	171.4	169.6	168.4	56.2	27.9
EL	157.7	161.3	157.0	138.6	132.2	117.3	118.0	110.8	111.1	115.4	115.7	114.6	-43.1	-2.7
ES	128.1	134.3	128.9	138.5	144.0	137.8	134.6	141.5	141.4	141.2	140.3	145.8	17.7	8.0
FR	168.5	166.8	168.6	169.7	175.9	173.0	160.4	176.8	172.1	177.5	175.0	178.4	9.9	5.4
IT	237.9	261.6	272.1	260.9	264.5	248.7	240.4	237.5	243.6	236.2	236.6	246.2	8.3	-2.6
CY	26.4	27.1	26.4	29.3	31.9	43.0	61.1	64.4	125.1	145.4	146.0	146.5	120.1	103.5
LV	10.1	18.1	26.7	44.7	41.6	48.3	43.2	48.2	51.7	60.8	72.2	76.1	66.0	27.8
LT	12.3	16.4	25.0	38.9	54.4	58.0	64.7	75.6	79.7	77.7	81.6	83.4	71.1	25.4
LU	140.9	138.6	142.7	151.2	158.8	164.3	164.3	169.7	173.8	185.8	194.0	194.6	53.7	30.3
HU	58.5	53.1	62.2	76.9	79.3	79.6	82.3	92.8	96.5	96.8	100.9	104.4	45.9	24.8
MT	52.0	60.8	72.1	126.8	139.3	142.2	176.4	135.4	120.3	120.4	118.3	140.0	88.0	-2.2
NL	112.4	110.8	125.6	131.2	146.4	154.4	160.0	164.4	169.1	179.9	197.9	216.1	103.7	61.7
AT	123.1	117.0	137.1	130.2	136.5	142.6	148.2	152.1	152.4	165.0	160.5	157.8	34.7	15.2
PL	20.7	26.0	27.6	37.7	48.1	59.2	66.7	77.4	72.1	75.3	95.9	101.4	80.8	42.3
PT	164.6	163.5	152.5	159.4	151.4	111.8	133.4	157.7	167.7	155.3	167.5	171.7	7.0	59.9
RO	-	-	-	36.2	56.1	58.3	37.9	36.6	43.8	54.8	59.5	67.4	-	9.1
SI	126.0	126.1	138.5	177.2	155.0	118.2	135.8	144.5	141.4	145.7	144.9	147.4	21.4	29.1
SK	29.9	29.5	32.1	32.2	33.2	42.4	37.1	44.1	59.3	70.2	77.3	83.0	53.0	40.6
FI	96.7	96.2	106.6	104.6	109.8	108.7	112.7	113.7	112.4	113.1	115.8	111.8	15.0	3.1
SE	138.3	169.2	168.0	172.7	178.3	182.0	181.6	194.4	204.7	208.9	210.7	217.9	79.6	35.9
UK	142.6	148.2	185.9	211.5	225.7	249.5	238.7	247.3	227.1	238.4	235.2	239.7	97.2	-9.7
NO	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*164.8*	*160.6*	*143.2*	*161.9*	*171.7*	*-*	*-*
EU-27 averages														
GDP-weighted	-	-	-	-	184.1	189.1	185.8	193.9	193.6	195.4	193.8	196.6	-	7.5
base-weighted	-	-	-	-	167.3	171.9	170.0	177.8	178.3	180.3	181.2	184.4	-	12.5
arithmetic	-	-	-	-	121.4	122.3	125.8	130.9	135.2	141.1	144.9	149.1	-	26.7
EU-25 averages														
GDP-weighted	158.6	160.0	167.8	172.2	184.8	189.9	186.7	195.0	194.7	196.4	195.0	198.0	39.4	8.1
base-weighted	143.7	144.8	152.4	158.4	170.7	175.3	173.7	181.9	182.2	184.1	184.8	187.9	44.2	12.6
arithmetic	102.7	106.4	112.7	121.7	127.7	128.3	132.5	138.5	142.3	147.6	151.7	155.6	52.9	27.2
EA-16 averages														
GDP-weighted	165.2	165.1	168.3	167.5	179.2	179.1	177.6	185.5	189.7	189.1	187.7	190.5	25.2	11.3
base-weighted	161.2	159.3	162.0	162.0	173.7	173.3	172.2	180.0	184.5	184.4	184.0	187.0	25.8	13.7
arithmetic	121.0	122.3	127.5	133.2	137.1	133.1	137.4	141.8	147.8	153.2	155.5	159.2	38.2	26.0

Source: Commission services

Table II-5.2 is based on nominal tax revenues. This has two consequences: first, for non-euro area countries, the value shown reflects exchange rate movements. An appreciation of the currency, for instance, would result in an increase in the ratio at unchanged taxation levels. Second, given positive euro inflation, a constant value of the ratio over time implies a slow decline in taxation in real terms.

To address the second issue a 'real' ITR on energy has been calculated, deflating tax revenues by the deflator of final demand (Table II-5.3). This adjustment shows that in real terms, taxation on energy has been trending downward, on average, since 2000; the real burden of taxation on energy has been declining in several old Member States (Denmark, Italy, France, Spain, Greece, United Kingdom), offsetting increases in most new Member States and a few old Member States (the Netherlands, Germany, Sweden). Overall, in the EU-27 at the (weighted) average level the real ITR on energy was in 2006 clearly lower than six years before.

Table II-5.3 Energy tax revenues in relation to final energy consumption (real ITR on energy)
Euro per tonne of oil equivalent, deflated with cumulative % change in final demand deflator (2000=100)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Difference[1] 1995-2006	2000-2006
BE	102.0	99.9	96.9	97.1	98.1	92.5	90.6	95.2	94.9	104.0	107.0	102.8	0.7	10.2
BG	-	-	-	-	31.8	36.4	44.4	35.5	46.8	57.8	53.0	53.2	-	16.8
CZ	50.4	50.2	47.3	48.7	53.7	55.9	64.4	74.7	73.2	79.3	94.5	100.8	50.4	45.0
DK	221.9	233.3	233.8	264.3	301.4	313.7	319.0	326.0	323.8	319.1	305.5	295.2	73.3	-18.5
DE	172.4	154.9	151.3	152.1	179.7	192.7	198.3	208.3	221.3	213.7	205.5	200.7	28.3	7.9
EE	9.9	17.1	20.3	33.3	32.4	32.2	42.0	42.5	46.4	55.9	65.5	68.9	58.9	36.7
IE	134.1	142.6	159.3	156.2	153.1	140.5	116.7	134.1	138.0	153.6	151.3	146.9	12.8	6.3
EL	206.1	197.1	181.2	152.5	141.6	117.3	114.5	104.7	101.9	102.9	100.2	96.0	-110.1	-21.3
ES	147.5	150.3	140.5	148.7	151.3	137.8	130.6	133.5	129.8	125.0	119.3	119.2	-28.2	-18.6
FR	176.4	172.2	172.3	173.0	179.9	173.0	158.2	172.8	166.1	168.8	162.7	161.9	-14.6	-11.1
IT	270.5	287.4	291.9	274.8	274.2	248.7	234.2	225.6	226.4	213.9	208.2	210.4	-60.1	-38.3
CY	30.4	30.4	28.8	31.3	33.2	43.0	59.5	62.1	116.6	131.9	128.4	125.5	95.1	82.5
LV	13.7	21.3	29.1	47.3	43.6	48.3	42.6	45.8	47.0	51.3	55.1	52.8	39.2	4.5
LT	15.4	18.0	25.3	38.9	55.3	58.0	65.4	77.4	83.1	80.0	78.2	74.5	59.1	16.5
LU	167.8	158.1	160.4	169.0	170.6	164.3	167.3	172.2	177.6	181.0	178.0	167.8	0.0	3.5
HU	110.7	82.9	83.1	91.5	87.9	79.6	77.8	85.8	86.0	85.0	87.5	86.6	-24.1	7.0
MT	60.7	69.5	81.7	140.6	152.6	142.2	179.3	134.7	119.3	117.3	112.3	125.8	65.2	-16.3
NL	122.9	119.9	133.0	138.5	153.4	154.4	155.4	157.7	160.5	169.1	181.5	193.6	70.7	39.2
AT	128.8	120.9	141.4	133.6	139.1	142.6	146.3	149.1	148.2	157.9	150.3	144.5	15.7	1.9
PL	35.0	37.9	35.0	43.0	51.8	59.2	64.8	73.0	66.6	66.7	84.2	87.5	52.5	28.3
PT	190.6	184.9	166.6	170.2	158.3	111.8	129.9	150.0	156.7	141.7	148.8	148.1	-42.5	36.3
RO	-	-	-	77.2	79.6	58.3	28.0	22.3	22.0	24.4	24.7	26.1	-	-32.2
SI	181.2	162.9	166.9	203.2	169.4	118.2	126.0	126.8	119.0	118.7	115.0	114.4	-66.8	-3.8
SK	40.1	37.2	38.0	37.3	36.8	42.4	35.2	40.8	53.0	60.2	66.0	69.0	28.9	26.6
FI	103.4	101.9	111.7	108.2	113.8	108.7	111.0	111.8	110.8	110.5	111.5	105.3	1.9	-3.4
SE	144.7	177.4	173.8	178.3	182.3	182.0	176.7	186.9	195.2	198.8	196.9	199.3	54.7	17.4
UK	152.3	154.0	192.3	217.8	229.4	249.5	235.0	239.0	214.1	220.8	212.4	211.1	58.8	-38.3
NO	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*166.5*	*158.3*	*134.5*	*142.5*	*141.5*	*-*	*-*
EU-27 averages														
GDP-weighted	-	-	-	-	189.2	189.1	182.4	187.5	184.6	183.0	177.4	175.6	-	-13.4
base-weighted	-	-	-	-	172.6	171.9	166.6	171.6	169.6	168.4	165.4	164.3	-	-7.7
arithmetic	-	-	-	-	127.9	122.3	122.7	125.5	127.6	130.0	129.8	129.2	-	6.8
EU-25 averages														
GDP-weighted	171.2	170.0	175.5	178.6	189.8	189.9	183.3	188.6	185.7	184.2	178.7	177.2	6.0	-12.7
base-weighted	157.0	154.9	160.0	164.7	175.7	175.3	170.5	175.9	173.8	172.5	169.3	168.2	11.2	-7.1
arithmetic	119.6	119.3	122.5	130.0	133.7	128.3	129.6	133.2	135.0	137.1	137.0	136.3	16.8	8.0
EA-16 averages														
GDP-weighted	178.1	175.5	176.1	173.7	184.4	179.1	174.3	179.5	181.5	177.9	172.7	171.2	-6.9	-8.0
base-weighted	174.7	169.8	169.9	168.3	179.0	173.3	169.0	174.2	176.5	173.4	169.2	168.1	-6.7	-5.2
arithmetic	139.7	136.9	138.9	142.9	144.1	133.1	134.6	136.2	140.0	141.9	140.4	139.5	-0.2	6.3

Source: Commission services

5.4. Have green tax reforms had any visible impact on the energy intensity of GDP?

Graph II-5.4 juxtaposes trends in the energy intensity of the economy, the real ITR on energy and the ITR on labour. In the graph, the energy intensity of the economy is shown on an inverted scale, meaning that if the line slopes upwards, the economy is becoming more energy efficient and vice versa.

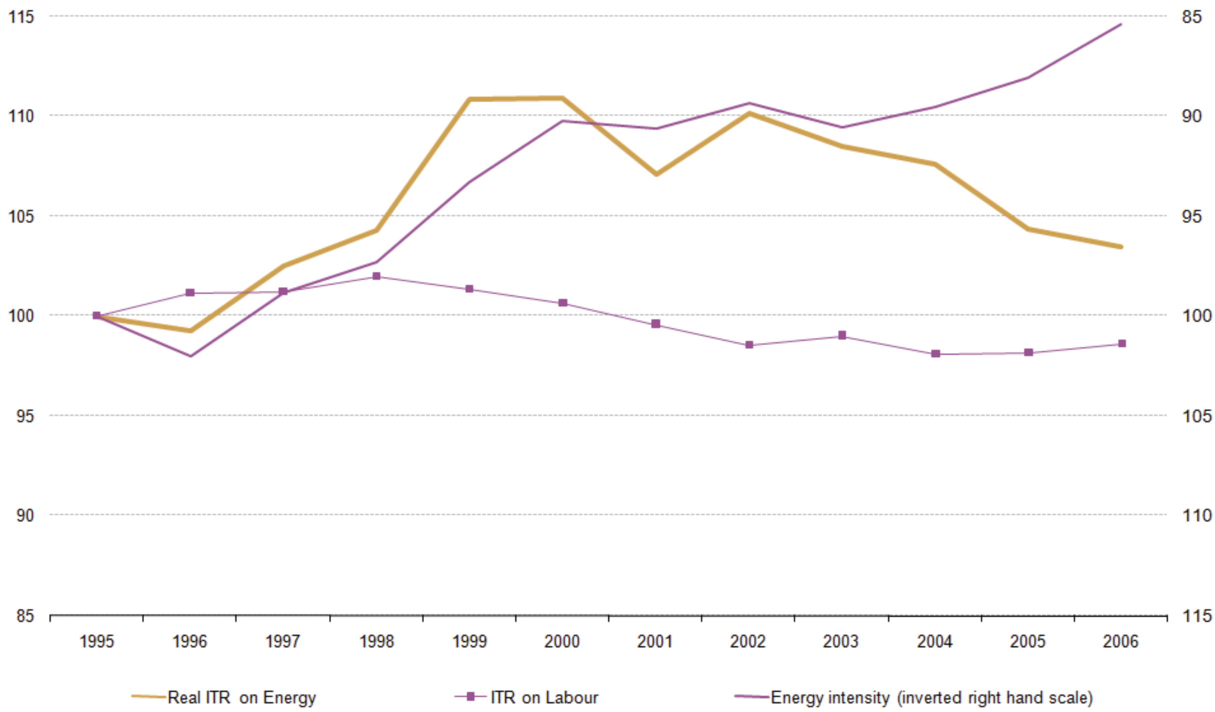
From 1995 to around 2000, as taxation of energy increased rapidly, final energy consumption grew at a much lower rate than the economy overall, leading to a rapid increase in energy efficiency[5]. Around 2000, however, the real burden of energy taxes started declining, and at the same time the growth in energy efficiency slowed down

5) Data on energy efficiency in the EU-15 are given in European Communities 2002b.

suggesting that taxation may have played a role in stimulating energy conservation, alongside other structural factors. From 2003 onwards, however, energy efficiency has improved again at a faster rate, while the effective tax burden on energy has continued to fall.

Graph II-5.4 Evolution of energy efficiency, ITR on energy and on labour

Index 1995 = 100; EU-25; all series GDP-weighted



Source: Commission services

As for the idea of financing cuts in the labour taxation from increases in environmental taxation, its implementation would imply an opposite development of the ITRs on energy and on labour in the graph: as the ITR on energy increases, taxation of labour should fall. This has not really been the case; as can be seen, the two trends are parallel rather than opposite, with the ITR on labour showing, in fact, a slight increase from 2004 onwards. These developments at the EU average level are, however, an outcome of diverging trends in individual Member States. Thus the effective tax burden on labour has been reduced, and that on energy increased in a number of them. Taking into account only the changes between 2000 and 2007 these countries include Germany, Estonia, Ireland, Lithuania, the Netherlands, Slovakia and Sweden.

III

Developments in the Member States

Austria	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	15.3	15.3	15.4	15.3	15.1	14.8	14.4	14.4	*12*	*39.0*
VAT	8.1	8.1	8.2	8.0	8.0	7.9	7.7	7.7	*14*	*21.0*
Excise duties and consumption taxes	2.7	2.7	2.7	2.8	2.8	2.7	2.6	2.5	*20*	*6.8*
Other taxes on products (incl. import duties)	1.2	1.2	1.1	1.2	1.2	1.1	1.2	1.1	*16*	*3.1*
Other taxes on production	3.2	3.3	3.3	3.3	3.1	3.1	3.0	3.0	*4*	*8.1*
Direct taxes	13.2	15.1	13.9	13.8	13.6	12.9	13.0	13.5	*10*	*36.7*
Personal income	10.1	10.8	10.5	10.5	10.2	9.6	9.7	10.0	*7*	*27.0*
Corporate income	2.2	3.3	2.4	2.3	2.4	2.3	2.3	2.6	*23*	*7.1*
Other	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	*7*	*2.6*
Social contributions	14.8	14.9	14.7	14.7	14.7	14.6	14.4	14.2	*4*	*38.5*
Employers´	7.1	7.0	6.9	6.9	6.9	6.8	6.8	6.7	*12*	*18.1*
Employees´	6.0	6.1	6.0	6.1	6.0	5.9	5.9	5.8	*4*	*15.6*
Self- and non-employed	1.6	1.7	1.7	1.8	1.9	1.8	1.8	1.8	*6*	*4.8*
B. Structure by level of government								% of GDP		
Central government	22.3	24.2	23.6	23.7	23.4	22.5	22.1	22.3	*15*	*60.5*
State government [2]	3.3	3.4	3.2	3.1	3.1	3.0	3.0	3.1	*4*	*8.3*
Local government	5.1	5.2	4.9	4.7	4.7	4.6	4.6	4.7	*10*	*12.7*
Social security funds	12.0	12.0	11.9	11.9	11.9	11.9	11.8	11.7	*11*	*31.8*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*16*	*0.8*
C. Structure by economic function								% of GDP		
Consumption	12.4	12.4	12.5	12.4	12.4	12.1	11.7	11.7	*15*	*31.7*
Labour	24.0	24.3	24.2	24.4	23.9	23.4	23.3	23.2	*3*	*62.9*
Employed	21.7	21.9	21.7	21.8	21.4	21.0	20.9	20.8	*4*	*56.4*
Paid by employers	9.7	9.7	9.5	9.6	9.4	9.3	9.3	9.2	*7*	*24.9*
Paid by employees	12.0	12.2	12.2	12.2	11.9	11.6	11.6	11.6	*7*	*31.5*
Non-employed	2.3	2.5	2.5	2.6	2.5	2.4	2.4	2.4	*6*	*6.5*
Capital	6.9	8.6	7.3	7.1	7.1	6.8	6.8	7.2	*18*	*19.5*
Capital and business income	5.8	7.4	6.1	5.9	6.1	5.8	5.8	6.2	*12*	*16.8*
Income of corporations	2.2	3.3	2.4	2.3	2.4	2.3	2.3	2.6	*24*	*7.1*
Income of households	0.9	0.9	0.9	0.8	0.8	0.8	0.9	1.1	*8*	*2.9*
Income of self-employed (incl. SSC)	2.7	3.2	2.8	2.8	2.9	2.7	2.6	2.5	*6*	*6.8*
Stocks of capital / wealth	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	*21*	*2.8*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1		
TOTAL	**43.2**	**45.3**	**43.9**	**43.8**	**43.4**	**42.2**	**41.7**	**42.1**	***7***	***113.9***
								% of GDP		
Of which environmental taxes	2.4	2.6	2.7	2.7	2.7	2.6	2.5	2.4	*16*	*6.6*
Energy	1.6	1.7	1.7	1.8	1.9	1.8	1.6	1.6	*21*	*4.5*
Of which transport fuel taxes	1.2	1.3	1.3	1.4	1.4	1.4	1.3	1.3	*17*	
Transport	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.8	*9*	*2.1*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*18*	*0.1*
D. Implicit tax rates								%		
Consumption	22.1	22.1	22.5	22.2	22.1	21.7	21.2	21.6	*12*	
Labour employed	40.1	40.6	40.8	40.8	41.0	40.8	40.8	41.0	*8*	
Capital	27.3	35.8	29.3	28.3	27.4	24.2	24.4	26.1		
Capital and business income	22.9	31.0	24.9	23.9	23.3	20.6	20.7	22.4		
Corporations	26.6	37.1	28.3	26.8	26.0	22.9	23.0	24.8		
Households	8.1	9.0	9.8	8.8	7.8	6.8	7.1	8.5		
Real GDP growth (annual rate)	3.7	0.5	1.6	0.8	2.5	2.9	3.4	3.1		
Output gap (potential)	2.0	0.2	-0.4	-1.8	-1.4	-0.6	0.7	1.5		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

AUSTRIA

Overall trends in taxation

Structure and development of tax revenues

In Austria, the overall tax burden (including social contributions) is more than four percentage points of GDP above the EU average (42.1 %, EU-27 37.5 %), with the Nordic Countries, Belgium, France and Italy recording higher rates.

Austria derives 34.2 % of tax revenues from indirect taxes (EU-27 38.4 %), of which VAT accounts for more than half. Austria raises a substantial amount from other taxes on production (7.1 % of total taxation, EU-27 3.9 %), in particular from an employer's contribution to the fund for equalisation of family burdens and a payroll tax payable to communes. By contrast, excise duties account for relatively little revenue. This reflects the moderate rates imposed, in particular on alcoholic beverages. Direct taxes account for a proportion of revenue (32.2 %) in line with the EU average although they rely relatively more heavily on PIT (23.7 %, EU-27 20.6 %) than on CIT (6.2 %, EU-27 9.5 %). Social contributions account for one third of total tax receipts (33.8 %, EU-27 29.5 %).

Among the federal countries in the EU, Austrian states receive the lowest proportion of total tax revenues (7.3 % as against 21.6 % in Spain, 22.6% in Germany and 24.4 % in Belgium). The share of local governments (11.1 %) is identical to the EU-27 average.

The political goal of achieving a balanced budget position in 2001 resulted in a hike of the tax-to-GDP ratio by 2.1 percentage points. The rise of total tax revenues to 45.3 % of GDP in 2001 was due to base-broadening measures, reductions in tax credits and above all significantly increased tax pre-payments, stimulated by the introduction of interest charges on tax arrears. Reforms enacted since then have resulted in a continuous decline of the tax-to-GDP ratio until 2006. In particular the two steps of the Steuerreform 2004/05, focusing on the reduction of wage and corporate taxation, lead to an estimated tax relief of about € 3 billion (1.2 % of GDP). The increase of the tax-to-GDP ratio by 0.4 percentage points to 42.1 % of GDP in 2007, is due to an increase in direct tax revenues. However, this rather reflects the strong economic growth (increases in the wage sum and sustained corporate profits) than significant changes in the tax system.

Taxation of consumption, labour and capital; environmental taxation

Taxes on consumption as a percentage of GDP (11.7 %) are slightly below the EU-27 average (12.4 %). The same holds for the implicit tax rate on consumption (21.6 %, EU-27 22.2 %). In contrast to the EU-27 and euro area averages, the Austrian ratio has somewhat decreased since 2000.

Taxes on employed labour represented 20.8 % of GDP in 2007, constituting around one half of the total tax burden. As in most EU countries, the tax burden on employed labour consists mainly of social contributions. In addition to the personal income tax, levied in the form of a withholding tax on wages and salaries, indirect labour taxes — such as the contribution by employers to the Family Burdens Equalisation Fund and the payroll tax — also contribute substantially to the overall taxation burden. The Austrian implicit tax rate on labour was more than six percentage points above the EU-27 average in 2007 (41.0 %, EU-27 34.4 %). Despite the Steuerreform 2004/05 it has remained more or less stable in recent years.

The share of taxes on capital in GDP (7.2 %) is below the EU-27 average and well below the euro area average (EU-27 8.0 %, EA-16 9.1 %). This is in part due to the fact that the tax on capital stocks and wealth yields less than half of the average amount in the euro area (1.0 % of GDP, EA-16 2.3 % of GDP). Base-broadening measures and increased prepayments, in reaction to the introduction of interest payments on tax arrears, led to a dramatic rise of revenues in

2001 before falling back in the following years, as is reflected in the implicit tax rate on corporate income (2000 26.6 %, 2001 37.1 %, 2003 26.8 %). The fall of the ITR by more than three percentage points in 2005 is mainly driven by the fall in the ITR on corporations, in line with the decrease in the corporate income tax rate from 34 % to 25 %. Taxes raised on corporate income in relation to GDP are in general low (2.6 %, EU-27 3.7 %) because of the large number of unincorporated companies in Austria.

Environmental taxes gradually increased until 2003 but have fallen back to their 2000 ratio since, despite the increase in mineral oil taxes on gasoline and diesel in July 2007 (Abgabenänderungsgesetz 2007). Their revenues are below the EU-27 average (2.4 % of GDP, EU-27 2.7 %), which is also true for the implicit tax rate on energy. Transport taxes are relatively important in Austria, contributing nearly one third to the overall revenue from environmental taxes, compared to an EU-27 average share of only one quarter.

Current topics and prospects; policy orientation

The tax reform law 2009 (Steuerreformgesetz 2009) adopted in March 2009, which has been applied retroactively from January 2009 onwards, targets an annual tax relief of about € 3 billion (1.1 % of GDP). In light of the financial and economic crises it intends to promote growth and stabilise the economy. Its key elements are changes in the income tax system (€ 2.3 billion) and the relief of families (€ 0.5 billion). The four brackets system is retained, but the marginal rates of the second and third brackets are lowered. The width of the zero rate bracket is increased by € 1 000, and the tax bracket for the top rate of 50 % is increased by € 9 000. The family tax relief package comprises increases in child allowances and child related tax credits, tax allowances for childcare costs, as well as wage tax exemptions for childcare subsidies paid by employers.

The tax relief achieved by the increase in the tax allowances for enterprises from 10 % to 13 % from 2010 onwards will be partly offset by the cancellation of tax favourable treatment for retained earnings. As a contribution to counteract cyclic decline an increased depreciation of 30 % in the year of investment was introduced for the years 2009 and 2010 which will lead to a tax relief of about € 700 million for both years. Donations to human charities have been made deductible and the tax deductibility for contributions to religious denominations was increased.

Main features of the tax system

Personal income tax

Between 1988 and 2000 income tax rates were slashed and the base was broadened. The consolidation package of 2001 included the reduction of tax credits and other tax increasing measures. In 2004 Step 1 of a tax reform (Steuerreform 2004/05) focused on the reduction of the income and wage tax of low and middle income earners. Under Step 2 a new system with four brackets came into force in 2005 replacing the old five bracket system. Further changes referred to, inter alia, the introduction of an additional children's tax credit for single parents and sole earners. To counteract high inflation, the commuter tax credit and the negative income tax for low income commuters, first introduced in 2007, were increased further in 2008. Additionally, tax exemptions for compensations on overtime hours were broadened and the limits on income tax deductible savings in building societies (Bausparkassen) were increased.

Austria has a comprehensive and progressive personal income tax scheme. From 2005-2008, the four brackets had marginal rates of 0 %, 38.333 %, 43.596 % and 50 %; as from 2009 the marginal tax rates applied for the brackets are: 0 %, 36.5 %, 43.2143 % and 50 %. In 2009, the zero-rate bracket goes up to a taxable income of € 11 000 (2008: € 10 000), which means that — as a result of other tax credits — annual gross earnings of about € 16 800 for employees and € 15 000 for pensioners are tax-free (2008: € 15 800 and € 13 500, respectively). The top rate of 50 % applies as of a taxable income of € 60 000 (2008: € 51 000). For partnerships and other unincorporated enterprises only half of the average tax rate is applied to the first € 100 000 of retained profits. The tax relief will be abolished in line with the increase in the tax allowance for profit income to 13% beginning with 2010. As a substantial proportion of enterprises are unincorporated, the reform of PIT affects both individuals and enterprises to a greater extent than elsewhere.

Capital gains are usually not included in taxable income. However, this does not apply for gains realised as part of commercial activity or on speculative gains (e.g. from shares within a one-year holding period and immovable property within a 10-year period) and in the case of substantial shareholdings. Dividends, interest and investment fund income are subject to a final withholding tax of 25 % while royalties are taxed at the normal progressive rates.

Corporate taxation

In 2005 the corporate tax rate was lowered from 34 % to 25 %, partly financed by broadening the tax base and abolishing the 10 % subsidy for the increment in investment in machinery and equipment, which had existed since 2002. A further consequence is that the deductibility of notional interest payments on additional own-capital (introduced in 2001) is rendered redundant as, while profits after deduction had been subject to the standard rate, notional interest was subject to 25 %. Since 2001 tax arrears have been subject to an interest charge. This led to a jump in corporate tax receipts in that year. As part of the base broadening measures undertaken, depreciation rates for buildings have been cut and now stand at 2 %. In recent years R&D allowances and tax credits have been increased. There is an R&D allowance of 25 % with an option for an 8 % tax credit. The training allowance is 20 % of the qualifying expenses with an optional tax credit of 6 %.

The deduction of losses of former years is restricted to 75 % of taxable profits, but there is an indefinite loss carry-forward period. Similar rules apply to personal income tax. In 2005 the group relief system (Organschaft) was replaced by a system of optional group taxation. Since then, foreign losses are deductible in computing the domestic income tax base, making Austria one of the few countries in Europe in which this is permitted. If a group breaks up within three years the effects of group treatment is reversed.

A number of taxes and contributions are based on payroll and borne by the employer, among them the municipal tax (3 % on salaries and wages paid) and the contribution to the Family Burdens Equalisation Fund (payable at a rate of 4.5 % on gross wages and salaries).

VAT and excise duties

The standard VAT rate is 20 %. A reduced rate of 10 % applies to basic foodstuffs, books and newspapers, public transport, renting of residential immovable property and since December 2008, also to pharmaceuticals. The quantitatively most important excise duties are on mineral oil, tobacco and the excise duty on electricity ,gas and coal (Energieabgabe) (3.2 %, 1.3 % and 0.7 % of total taxation, respectively).

Wealth and transaction taxes

The real estate tax is levied at a basic federal rate (0.2 %), multiplied by a municipal coefficient (up to 500 %), which means a tax rate of 1% on the tax values (Einheitswerte), in general. The real estate transfer tax stands in general at 3.5 %. Inheritance and gift tax was abolished in August 2008. There is no net wealth tax.

Social contributions

In principle, all employees must be insured under the social security system. Both they and their employers must pay contributions as a percentage of their earnings up to a ceiling of € 56 280 (2008: € 55 020). The general overall employee's contribution rate is about 18 %. The rate for the employers is slightly above 21 ½ %. However, in certain cases additional contribution rates or reduced rates, such as reduced unemployment insurance contributions for old and low income earners, apply.

Belgium	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	13.8	13.3	13.3	13.4	13.6	13.7	13.8	13.5	*15*	*45.1*
VAT	7.2	6.9	6.9	6.8	6.9	7.1	7.1	7.1	*20*	*23.9*
Excise duties and consumption taxes	2.4	2.3	2.3	2.4	2.5	2.4	2.2	2.2	*25*	*7.3*
Other taxes on products (incl. import duties)	2.3	2.2	2.2	2.3	2.3	2.4	2.5	2.5	*8*	*8.3*
Other taxes on production	1.9	1.9	1.8	1.9	1.9	1.8	2.0	1.7	*10*	*5.5*
Direct taxes	17.5	17.7	17.6	17.2	17.4	17.5	17.2	16.9	*4*	*56.7*
Personal income	13.2	13.5	13.3	13.0	12.8	12.7	12.1	12.0	*4*	*40.2*
Corporate income	3.2	3.1	3.0	2.9	3.2	3.4	3.7	3.6	*9*	*12.1*
Other	1.1	1.1	1.2	1.3	1.5	1.5	1.3	1.3	*5*	*4.4*
Social contributions	13.9	14.2	14.4	14.3	14.0	13.7	13.5	13.6	*6*	*45.5*
Employers´	8.4	8.5	8.7	8.7	8.5	8.3	8.2	8.3	*9*	*27.7*
Employees´	4.3	4.5	4.5	4.4	4.3	4.2	4.1	4.1	*8*	*13.8*
Self- and non-employed	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	*12*	*4.0*
B. Structure by level of government								% of GDP		
Central government	16.6	15.7	15.7	15.0	14.7	14.3	14.0	13.3	*25*	*44.4*
State government [2]	10.3	11.0	10.5	10.8	10.6	10.8	10.7	10.7	*1*	*35.9*
Local government	1.9	2.1	2.2	2.3	2.3	2.2	2.2	2.3	*18*	*7.7*
Social security funds	15.5	15.6	16.2	16.0	16.8	16.9	16.9	17.0	*2*	*56.9*
EU institutions	0.8	0.8	0.6	0.7	0.6	0.6	0.7	0.7	*1*	*2.3*
C. Structure by economic function								% of GDP		
Consumption	11.4	11.0	11.0	11.0	11.2	11.2	11.2	11.0	*20*	*36.9*
Labour	24.3	24.8	24.9	24.7	24.1	23.8	23.0	22.9	*4*	*76.8*
Employed	22.3	22.7	22.8	22.6	22.3	22.0	21.3	21.2	*3*	*71.1*
Paid by employers	8.4	8.5	8.7	8.7	8.5	8.3	8.2	8.3	*10*	*27.7*
Paid by employees	13.9	14.2	14.1	13.9	13.9	13.7	13.1	13.0	*2*	*43.4*
Non-employed	2.0	2.1	2.1	2.1	1.8	1.8	1.7	1.7	*9*	*5.7*
Capital	9.5	9.4	9.3	9.2	9.7	9.9	10.2	10.0	*8*	*33.5*
Capital and business income	6.2	6.1	5.9	5.7	5.9	6.2	6.4	6.3	*11*	*21.1*
Income of corporations	3.2	3.1	3.0	2.9	3.2	3.5	3.7	3.6	*11*	*12.1*
Income of households	0.5	0.6	0.5	0.5	0.4	0.4	0.4	0.5	*17*	*1.5*
Income of self-employed (incl. SSC)	2.4	2.4	2.4	2.3	2.4	2.3	2.3	2.2	*8*	*7.5*
Stocks of capital / wealth	3.4	3.3	3.4	3.5	3.8	3.7	3.8	3.7	*3*	*12.4*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**45.2**	**45.2**	**45.3**	**44.9**	**45.0**	**44.9**	**44.5**	**44.0**	***3***	***147.2***
								% of GDP		
Of which environmental taxes	2.3	2.3	2.2	2.3	2.4	2.3	2.2	2.1	*22*	*7.0*
Energy	1.4	1.4	1.4	1.4	1.5	1.5	1.4	1.3	*25*	*4.5*
Of which transport fuel taxes	1.4	1.3	1.3	1.3	1.3	1.3	1.2	1.2	*23*	
Transport	0.6	0.7	0.7	0.7	0.7	0.7	0.6	0.6	*11*	*2.0*
Pollution/resources	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	*7*	*0.5*
D. Implicit tax rates								%		
Consumption	21.8	21.0	21.4	21.3	22.0	22.2	22.3	22.0	*11*	
Labour employed	43.9	43.5	43.6	43.4	44.0	43.8	42.7	42.3	*3*	
Capital	29.3	29.6	30.9	31.9	32.9	32.4	32.0	31.1		
Capital and business income	19.0	19.2	19.7	19.7	20.1	20.3	20.0	19.6		
Corporations	23.6	23.6	23.1	22.0	22.2	22.1	21.6	20.7		
Households	13.0	13.3	13.9	14.5	14.8	15.1	14.9	14.9		
Real GDP growth (annual rate)	3.7	0.8	1.5	1.0	3.0	1.8	3.0	2.8		
Output gap (potential)	1.9	0.5	0.1	-0.7	0.4	0.2	1.0	1.4		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

BELGIUM

Overall trends in taxation

Structure and development of tax revenues

Belgium traditionally belongs to the group of EU countries with the highest tax levels, alongside the Nordic countries, France and Italy. At 44.0 % in 2007, the total tax ratio was the third highest in the EU after Denmark and Sweden (EU-27 37.5 %).

The structure of the tax system, in terms of the share of revenue raised by the different taxes, has remained relatively stable since 2000, in spite of a far-reaching tax reform of direct taxation, introduced over the period 2000–2006. The structure is characterised by a relatively high share of direct taxes (38.5 %, EU-27 32.3 %), reflecting a broad reliance on corporate and households income tax. By contrast, with 30.6 %, the share of indirect taxes is the second lowest in the EU (EU-27 38.4 %) after the Czech Republic. Since the 2002 corporate tax reform the share of corporate tax revenue has significantly increased, mainly due to the favourable profit evolution. The tax reform was complemented by successive targeted reductions in employers' social security contributions.

In 2001 an institutional reform granted further fiscal autonomy to the regions. This resulted in several non-symmetrical changes in registration duties and inheritance and estate taxes. About a quarter of tax revenues benefit the regions and communities. Local government accounts for a modest share of the tax burden. Since 2002, revenue of social security funds has overtaken federal government revenue to account for the largest share of revenues, while federal government revenue markedly declined.

A fiscal moratorium caused the tax-to-GDP ratio to stabilise around 45 % between 2000 and 2004. The ratio decreased from 44.9 % to 44.0 % between 2005 and 2007 due to a reduction in personal income tax revenues and revenues from social security contributions, but remains 6.5 percentage points higher than the EU-27 average.

Taxation of consumption, labour and capital; environmental taxation

The 2007 implicit tax rate on consumption was marginally higher than the rate in 2000. At 22.0 %, it was slightly below the EU average for the first time since 2000 (EU-27 22.2 %).

Belgium imposes relatively heavy taxes on labour with an implicit tax rate of 42.3 %. The tax reforms initiated since 2000 have only marginally influenced this feature. Throughout the whole period, targeted rebates in employers' social contributions were used as the main instrument to reduce labour cost[1]s. The 2000–2006 reform programme paved the way for easing the tax burden on labour and led to a decrease in the ITR by 1.7 percentage points in 2007 compared to 20[2]04. Nonetheless, the ITR on labour remains the third highest in the EU behind Italy and Sweden.

The ITR on capital somewhat increased from 29.3 % in 2000 to 31.1 % in the year 2007. The ITR on capital and business income of households exhibits an upward trend, while the trend was reversed for the ITR on corporations. On the household side, part of the increase might be explained by the boom in the real estate market that has resulted in an increase of registration duties. The 2004 tax amnesty also affected revenue streams, as well as the

1) However, some of theses rebates are considered as wages subsidies according to the Belgian National Accounts and are consequently not deducted from the tax revenue.

2) When accounting with the amount of rebates that are considered as wage subsidy in the national accounts, an additional drop of 0.5 % GDP should be taken into account in 2007.

securitisation of tax revenues started at the end of 2005. In 2007, taxes on stocks of capital/wealth amounted to 3.7 % of GDP, the third highest value in the EU.

Revenue from environmental taxation has remained roughly stable since 2000. In 2007 environmental tax revenue amounted to 2.1 % of GDP, well below the EU-27 average (2.7 %).

Current topics and prospects; policy orientation

Since 1999, tax policy has been oriented at maintaining a (non-binding) tax moratorium, introducing a multi-annual tax reform (2000–2006). Up to 2008 achieving budgetary equilibrium and a further reduction of public debt remained a priority for the government in order to prepare the public finances for the budgetary impact of an ageing population. In spite of a steady decline between 1999 and 2007, the debt to GDP ratio remains well above the EU average and has been rising again in 2008 due to the economic slowdown.

As of 1 January 2007, the Belgian government introduced a tax deduction of 80 % under the corporate income tax for income derived from patents licensed by a company based in Belgium (no possible carry-forward). For both corporations and partnerships, the rates of investment allowances were reduced by one percentage point due to a lower rate of inflation for the reference period. As from 1 April 2008, the deductibility of business car expenses is computed according to CO2 emissions and varies from 60 % to 90 %. These deduction levels also differ according to the type of vehicle (petrol or diesel-driven cars). Capital gains and losses related to such cars are only taken into account up to an equal percentage of the deduction.

The exemption of up to € 4 930 (in income year 2008) for each additional employee, granted on certain profits made by companies with less than 11 employees, which used to be temporary, has been made permanent as from last year. From 1 July 2008, the reduction for the wage withholding tax for scientific personnel was increased to 65 % for all categories (generalisation of the maximum rate[3)]) . As from 1 January 2009, a deduction of 120 % of the costs relative to safety measures applies to costs incurred by small and medium-sized companies.

As of income year 2008, the basic allowance has been increased for taxpayers with an income below €22 870. The basic allowance is € 6 150, increased to € 6 400 for low or middle-income taxpayers. For taxable income between € 22 870 and € 23 120, a phasing-out rule has been introduced to decrease progressively the increased allowance for income just above the limit.

In response to the economic downturn several measures were announced at the end of 2008. The 'recovery plan' includes a VAT rate reduction (from 21 % to 6 %) for the construction of private (for € 50 000) and social dwellings. The general reduction as well as some targeted reductions for the wage withholding tax were increased. The general reduction increases from 0.25 % to 0.75 % from 1 June 2009 and to 1 % as from 1 January 2010, whereas the reduction for scientific personnel increased to 75% (from 1 January 2009), and the reduction for night and shift workers increases from 10.7 % to 15.6 % (from 1 June 2009). In addition, the number of overtime hours which qualify for reduced wage withholding tax was also increased from 65 hours to 100 hours in 2009 and to 130 hours in 2010. Moreover, an acceleration of VAT restitutions and a temporary prolonged payment delay for the wage withholding tax was approved.

3) The reductions on the withholding tax on wages do not affect the PIT liability of the wage earner; they operate as a wage subsidy for the employer. In ESA95, they are booked as a transfer from the government to the corporate sector.

Main features of the tax system

Personal income tax

There are four categories of income: financial, real estate, professional (including labour income) and other various income. In principle, the general rates are applied to each category, but there are exceptions, e.g. in relation to financial income, income from private pension arrangements and other various income.

In practice, the basis for taxation at the marginal rate consists of (deemed) property and professional income. Spouses are taxed separately, although a marital quotient exists: 30 % of the higher income is transferred to the lower one, provided it does not exceed € 8 880. A major reform was implemented in 2000–2006, introducing changes in brackets, rates, deductions and exemptions as well as a reimbursable tax credit for lower incomes.

Dividends and interest are taxed at a modest flat rate at source so financial income is no longer considered in the annual calculation. Taxation of private capital gains is almost non-existent (except for those on some capitalisation vehicles), interest on ordinary saving accounts is exempt and pension savings enjoy a special regime resulting in negative effective rates, as in other EU countries.

Corporate taxation

Companies in Belgium and the subsidiaries of foreign companies are subject to a fixed tax rate of 33.99 % (crisis surcharge included) regardless of the origin and the destination of the profits. There is no fiscal consolidation of companies. Under certain conditions, a special scheme applies to SMEs having an assessed income lower than € 322 500: a tax rate of 24.98 % is applied on the part from € 0 to € 25 000, 31.93 % on the part of € 25 000 to € 90 000 and 35.54 % on the remaining part up to € 322 500.

An allowance for corporate equity (ACE), referred to as 'notional interest on corporate capital', was introduced in 2006 to stimulate the self-financing capability of companies. The tax-free presumptive rate of return on equity applied under the ACE system amounts to 4.473 % in 2009 (4.973 % for SMEs). In 2003 a tax-free reserve for new investments financed by retained earnings was introduced for SMEs benefiting from reduced rates.

VAT and excise duties

There are four VAT rates. The standard rate has remained unchanged at 21 % since 1996. A reduced 6 % rate applies to public housing, refurbishment of old housing, food, water, pharmaceuticals, animals, art and publications and some labour intensive services; the 2009 'recovery plan' also includes the above-mentioned temporary reduction of the VAT rate to 6 % for a maximum amount of € 50 000 on invoices of newly constructed private dwellings. An intermediate rate of 12 % applies to a limited number of transactions. A zero rate applies to newspapers and certain weeklies. Excise duties in a strict sense yield relatively low revenue in Belgium, but this is supplemented by above average levels of other taxes on products.

Wealth and transaction taxes

There are no wealth taxes. Transaction taxes are generally levied at the regional level.

Social contributions

The social security system is financed by contributions from employees and employers and government subsidies. The amounts are calculated based on the gross salary (including bonuses, benefits in kind, etc). The standard rate is approximately 13 % for employees and 35 % for employers but there are rebates for low wage earners and some target groups.

Bulgaria	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	15.0	14.6	14.4	15.8	17.5	18.7	19.4	18.9	*2*	*5.5*
VAT	9.7	9.1	9.2	9.8	10.7	12.1	12.4	12.1	*1*	*3.5*
Excise duties and consumption taxes	3.7	4.1	3.7	4.5	5.1	4.9	5.2	5.9	*1*	*1.7*
Other taxes on products (incl. import duties)	1.0	0.8	0.8	0.9	1.0	1.0	1.2	0.4	*24*	*0.1*
Other taxes on production	0.5	0.5	0.6	0.7	0.7	0.6	0.6	0.4	*24*	*0.1*
Direct taxes	7.0	7.6	6.4	6.7	6.0	5.7	6.0	7.2	*25*	*2.1*
Personal income	4.1	3.6	3.2	3.3	3.2	2.9	2.7	3.2	*26*	*0.9*
Corporate income	2.7	3.8	2.9	3.1	2.4	2.4	2.7	3.2	*14*	*0.9*
Other	0.2	0.2	0.2	0.3	0.4	0.4	0.6	0.7	*15*	*0.2*
Social contributions	11.0	10.0	9.5	10.6	10.5	10.3	8.7	8.7	*21*	*2.5*
Employers´	8.1	7.3	6.6	7.4	7.4	6.8	5.4	5.4	*18*	*1.6*
Employees´	1.6	1.5	1.8	1.9	1.9	2.2	2.2	2.3	*20*	*0.7*
Self- and non-employed	1.2	1.2	1.1	1.2	1.2	1.3	1.1	1.0	*14*	*0.3*
B. Structure by level of government								% of GDP		
Central government	18.7	18.7	17.5	22.0	23.0	23.8	24.6	24.7	*9*	*7.1*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	3.2	3.4	3.3	0.5	0.5	0.6	0.8	0.9	*23*	*0.3*
Social security funds	11.0	10.0	9.5	10.6	10.5	10.3	8.7	8.7	*19*	*2.5*
EU institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	*n.a.*	*n.a.*
C. Structure by economic function								% of GDP		
Consumption	14.4	14.0	13.7	15.1	16.8	18.0	18.7	18.4	*1*	*5.3*
Labour	14.0	12.6	11.8	12.9	12.8	12.2	10.5	10.8	*25*	*3.1*
Employed	13.5	12.1	11.3	12.4	12.2	11.6	10.0	10.3	*26*	*3.0*
Paid by employers	8.4	7.5	6.8	7.7	7.6	7.0	5.6	5.5	*19*	*1.6*
Paid by employees	5.1	4.6	4.5	4.7	4.6	4.6	4.4	4.9	*26*	*1.4*
Non-employed	0.6	0.6	0.5	0.5	0.6	0.6	0.5	0.5	*18*	*0.1*
Capital	4.6	5.6	4.8	5.0	4.5	4.5	4.8	5.5	*21*	*1.6*
Capital and business income	4.2	5.2	4.3	4.4	3.8	3.8	4.0	4.5	*21*	*1.3*
Income of corporations	2.8	3.9	3.1	3.2	2.6	2.5	2.9	3.4	*14*	*1.0*
Income of households	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*24*	*0.0*
Income of self-employed (incl. SSC)	1.3	1.1	1.1	1.1	1.1	1.2	1.0	0.9	*18*	*0.3*
Stocks of capital / wealth	0.4	0.4	0.5	0.6	0.7	0.7	0.8	1.0	*22*	*0.3*
Less: amounts assessed but unlikely to be collected	0.4	1.3	0.7	0.8	1.0	0.7	0.9	0.5		
TOTAL	**32.5**	**30.9**	**29.6**	**32.2**	**33.1**	**34.0**	**33.2**	**34.2**	***20***	***9.9***
								% of GDP		
Of which environmental taxes	2.5	2.8	2.2	3.0	3.4	3.1	3.1	3.4	*4*	*1.0*
Energy	2.3	2.6	2.0	2.6	3.0	2.7	2.7	3.0	*1*	*0.9*
Of which transport fuel taxes	-	-	-	-	-	-	-	-	*n.a.*	
Transport	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	*20*	*0.1*
Pollution/resources	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	*10*	*0.0*
D. Implicit tax rates								%		
Consumption	19.7	18.9	18.7	20.6	23.2	24.4	25.5	25.4	*8*	
Labour employed	38.7	34.3	32.9	35.5	36.3	34.7	30.6	29.9	*23*	
Capital	-	-	-	-	-	-	-	-		
Capital and business income	-	-	-	-	-	-	-	-		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	5.4	4.1	4.5	5.0	6.6	6.2	6.3	6.2		
Output gap (potential)	-1.3	-0.1	1.0	0.7	1.6	1.6	1.8	1.5		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

BULGARIA

Overall trends in taxation

Structure and development of tax revenues

At 34.2 % in 2007, 3.3 percentage points below the EU average, Bulgaria ranks 20th in the EU in terms of the total tax-to-GDP ratio. Compared to neighbouring Romania, Bulgaria's total tax ratio is almost 4.8 percentage points higher, while the difference from the remaining Central and Eastern European Member States is most marked with Hungary, 5.6 percentage points lower.

Bulgaria is the EU Member State most reliant on indirect taxation. The share of indirect taxes on total taxation is the highest in the Union, amounting to 55.1 %, i.e. 16.7 percentage points above the average. In terms of its share on GDP the level of indirect taxation is also well above the EU average (18.9 %, EU 14.3 %); this value is the second highest in the EU and, except for 2007, has been rising rapidly, growing by almost one third in five years. Both VAT and excise duties contribute to the high level of indirect taxes. Direct taxes conversely account for only 20.9 % of total taxation, the second lowest value in the Union. The low share of direct taxation is mainly due to the modest PIT revenues, which yield only 40 % of the EU average. Social security contributions have been reduced significantly over the last seven years; as of 2007 they represent only 25.3 % of total taxation (EU 29.5 %).

Central government accounts for 72.3 % of total tax revenues, followed by social security funds (25.3 % of total tax revenues), while local government revenues are marginal. This is due to the abolition of the local CIT surcharge and discontinuing of PIT sharing as of 2003. As a result, local government revenues fell from 3.3 % of GDP in 2002 to 0.5 % the following year. A recently observed marginal pick-up is due to the boom in the property sector.

The total tax-to-GDP ratio in 2007 (34.2 %) is almost two percentage points higher than in 2000. The decrease of the ratio in 2001 and 2002 was mainly due to cuts in PIT and social security contributions rates. Strong unpredicted deficits in the social security funds, notably in 2001, resulted both from personnel restructuring in a number of large privatised companies, and possibly from a growth of the shadow economy. These developments resulted in the introduction of minimum social security thresholds in 2003, which led to a stabilisation of social security revenues. In 2006 and 2007, a decline in revenues from social contributions was offset by further growth in receipts from indirect taxes as well as from the PIT and the CIT, so that the overall tax-to-GDP ratio remained almost unchanged.

Taxation of consumption, labour and capital; environmental taxation

Taxes on consumption in Bulgaria amounted to 18.4 % of GDP in 2007, the highest value in the EU. This is mainly due to a high share of domestic final consumption in GDP — nearly three quarters, the third highest in the EU; the rate of taxation contributes less to this high level as shown by the ITR on consumption which — at 25.4 % — is only the eighth highest in the EU. The ITR on consumption is driven up to well above the VAT standard rate by a high level of excise duties which yield nearly 50 % of VAT revenues. The increase of the ITR from 2003 onwards is notably due to the continuous increase of excise duty rates, the lowering of the VAT registration threshold and the introduction of VAT accounts.

In 2007, revenue from labour taxation amounted to only 10.8 % of GDP, the third lowest value in the Union and 6.4 percentage points below the EU average. Among other factors, this is due to the relatively low level of compensation of employees (34.5 % of GDP). At 29.9 %, the ITR on labour, is also well below the EU average (34.4 %).

Revenues from taxes on capital amounted to 5.5 % of GDP in 2007, 2.5 percentage points below the EU average. The ratio decreased gradually from 2001 to 2005, but picked up in 2006 owing to higher proceeds from corporate income taxation. It is worth noting that the ratio of taxes on capital income of households is underestimated since personal income taxes (e.g. on dividends) withheld at source by the companies are not shown separately in the data used, and are thus attributed to the estimate for taxes on capital income of corporations.

At 3.4 % of GDP, revenues from environmental taxes are well above the EU average (2.7 %). This is due to high revenues from energy taxation, which — at 3 % of GDP — are the highest in the EU (EU 1.9 %), while transport taxes are of lesser importance (0.3 % of GDP).

Current topics and prospects; policy orientation

Since 1998 fiscal policy has been targeted towards lowering the direct taxation burden and increasing reliance on indirect taxation. Other major objectives include equal treatment and simplification of procedures. All this, coupled with stricter tax controls and targeted anti-fraud measures drove a number of businesses out of the grey sector, broadening the tax base. The corporate income tax rate has been slashed by two thirds since 2000. More preferential depreciation allowances were introduced, especially for initial investment and ITC equipment. PIT tax brackets were also 'flattened' in the course of the years. The recently adopted new tax laws have mainly been targeted towards full compliance with the taxation *acquis communautaire*, as well as towards simplification of the legal texts and procedures.

As from 1 January 2008, Bulgaria introduced a 10 % flat PIT rate with no minimum allowance, replacing the previous progressive tax schedule. Simultaneously, the law abolished the tax credit for dependents and only an allowance for disabled persons was retained. Sole traders are subject to a 15 % rate instead of the regular 10 %; the law also decreased a number of fixed deductions.

Main features of the tax system

Personal income tax

The applicable tax brackets have been continuously lowered, most significantly since 2001. The broadening of the tax base and an increase in employment prevented significant revenue losses. In 2006 and 2007 three tax brackets with rates of 20 %, 22 % and 24 % respectively were in place (the latter down from 40 % in 1998). Since 2008, however, a 10 % flat rate applies.

The flat tax is levied on income from six sources and only very few tax reliefs are in force. The flat tax applies to both the income of resident physical persons on their worldwide income and the income of non-resident physical persons on their income in Bulgaria. Residents receiving local or inbound dividends and non-residents receiving local dividends are subject to a 5 % final withholding tax. A withholding tax of 10 % applies to certain types of income.

The net income of sole proprietors is taxed separately by way of 15 % final flat tax. In certain sectors small businesses operated by natural persons, including sole proprietors, are subject to a lump sum ('patent') tax provided that they are not registered for VAT.

Pensions and other social security payments are exempt from taxation. Similarly, interest income on savings accounts in banks resident in Bulgaria or another EEA country, on Bulgarian government securities, on state or state-guaranteed loans, and on corporate bonds and debentures is also exempt.

Corporate taxation

In the course of the last decade, corporate income taxation in Bulgaria has become increasingly favourable to business. Starting from the 40 % rate in 1995 for large enterprises, the rate was lowered almost every year to reach the 10 % rate applicable as from 1 January 2007. Initial investment, computers and software as well as mobile phones benefit from a special 50 % depreciation rate. Moreover, the 50 % depreciation rate is applicable to any type of investment in new assets, if made to promote energy efficiency.

The taxable result is derived from the accounting result, amended for tax purposes. Losses are carried forward for five years. Dividends distributed between resident commercial companies are exempt. As of 1 January 2009, any dividends paid to/received from companies and other entities resident in an EEA country are exempt from withholding tax. Otherwise, a 5 % withholding tax is levied on outbound dividends. Other income paid to non-resident companies is subject to a 10 % withholding tax.

As of 1 January 2009, a tax holiday for investment was introduced. It is in the form of a corporate income tax exemption for five years and applies, under certain conditions, to profits from agriculture, processing, production, high-tech industry and the building of infrastructure. The tax holiday, which is considered State aid, would apply only in case the measure is approved by the European Commission.

VAT and excise duties

The VAT system has been in place in Bulgaria since 1994 and follows the one adopted by the EU Member States. The reduced rates have been repealed and the general rate has been lowered from 22 % to 20 %. Only one reduced rate of 7 % is applicable to hotel accommodation if the latter is a part of an organised trip.

Excise duty rates have been increased nearly every year and the hike will continue in accordance with the transitional periods negotiated with the European Commission. For 2009 the increase of the rates affects the kerosene, coke and coal, electricity and cigarettes.

Wealth and transaction taxes

There is no net wealth tax. No inheritance or gift tax is levied on inheritances/donations received by the spouse and relatives in the direct line. The tax is levied at rates set by the municipalities within the limits set by law. The rates may vary between 0.4 % and 0.8 % (if received by relatives in the lateral line) and between 3.3 % and 6.6 % (if received by any other beneficiary). A real estate tax applies at rates of 0.05 % to 0.2 % of the value of the immovable property, depending on the municipality. A 50 % discount is granted if the property is the main residence of the taxpayer.

Social contributions

Contributions are due for the public social insurance funds, covering pension rights, general sickness and maternity, health, and unemployment. In 2009, the different contributions sum up to a maximum of 30.5 % of the income, subject to monthly income minimum and ceiling. Currently, over half (60 %) of the contribution payments are paid by the employer and 40 % by employees. As from 1 January 2009, the State transfers annually to the Pensions Fund an amount equal to 12 % of the social insurance income of all insured people for the calendar year. Social insurance contributions to the Pensions Fund are 10% for employers and 8% for employees of the social insurance income.

Furthermore, the employer has to pay additional contributions to the Labour Accident and Professional Disease Fund (0.4 %–1.1 %) and to the Guaranteeing the Receivables of Workers and Employees in Case of Insolvency of Employers Fund (0.1 %).

Cyprus	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	12.4	13.0	13.3	16.4	17.0	17.1	17.9	20.0	*1*	*3.1*
VAT	5.8	6.2	7.1	8.8	9.1	9.7	10.4	11.3	*2*	*1.8*
Excise duties and consumption taxes	2.5	3.2	2.8	3.8	4.4	4.1	3.9	3.7	*5*	*0.6*
Other taxes on products (incl. import duties)	3.0	2.7	2.3	2.0	1.7	1.4	1.4	1.9	*11*	*0.3*
Other taxes on production	1.1	1.0	1.0	1.7	1.9	1.9	2.2	2.9	*5*	*0.5*
Direct taxes	11.0	11.2	11.2	9.6	8.7	10.2	10.8	14.0	*7*	*2.2*
Personal income	3.6	3.9	4.3	4.4	3.5	3.9	4.6	6.3	*16*	*1.0*
Corporate income	6.2	6.2	6.0	4.3	3.7	4.6	5.5	6.9	*1*	*1.1*
Other	1.2	1.1	0.9	0.9	1.5	1.7	0.7	0.8	*12*	*0.1*
Social contributions	6.5	6.8	6.7	7.0	7.7	8.3	7.8	7.7	*23*	*1.2*
Employers´	4.4	4.5	4.5	4.7	5.3	5.9	5.5	5.2	*20*	*0.8*
Employees´	1.8	1.9	1.9	1.9	2.1	2.1	2.0	2.1	*22*	*0.3*
Self- and non-employed	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	*19*	*0.1*
B. Structure by level of government								% of GDP		
Central government	23.0	23.7	24.1	25.5	25.1	26.6	27.9	33.2	*4*	*5.2*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	0.4	0.5	0.4	0.4	0.5	0.4	0.5	0.5	*25*	*0.1*
Social security funds	6.5	6.8	6.7	7.0	7.7	8.3	7.8	7.7	*20*	*1.2*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.2	0.2	0.2	*25*	*0.0*
C. Structure by economic function								% of GDP		
Consumption	10.6	11.8	12.4	14.7	15.2	15.2	15.4	16.4	*2*	*2.6*
Labour	9.4	9.9	10.0	10.7	10.5	11.3	11.1	11.0	*24*	*1.7*
Employed	9.2	9.7	9.9	10.6	10.5	11.2	11.0	10.9	*24*	*1.7*
Paid by employers	4.6	4.7	4.7	5.5	6.2	6.7	6.4	6.1	*18*	*1.0*
Paid by employees	4.7	5.0	5.2	5.1	4.3	4.5	4.6	4.8	*27*	*0.8*
Non-employed	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	*24*	*0.0*
Capital	9.9	9.2	8.9	7.6	7.7	9.0	10.0	14.2	*1*	*2.2*
Capital and business income	7.5	7.4	7.3	5.9	5.3	6.3	7.7	10.8	*1*	*1.7*
Income of corporations	6.2	6.2	6.0	4.3	3.7	4.6	5.5	6.9	*1*	*1.1*
Income of households	0.8	0.7	0.8	1.1	1.1	1.2	1.7	3.4	*1*	*0.5*
Income of self-employed (incl. SSC)	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	*22*	*0.1*
Stocks of capital / wealth	2.5	1.8	1.5	1.7	2.5	2.7	2.3	3.5	*5*	*0.5*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**30.0**	**30.9**	**31.2**	**33.0**	**33.4**	**35.5**	**36.5**	**41.6**	***8***	***6.5***
								% of GDP		
Of which environmental taxes	2.7	3.0	2.9	3.7	4.0	3.5	3.3	3.4	*5*	*0.5*
Energy	0.7	1.0	1.0	1.9	2.1	1.9	1.8	1.8	*17*	*0.3*
Of which transport fuel taxes	-	-	-	-	1.5	1.6	1.4	1.4	*15*	
Transport	2.0	2.0	1.9	1.8	1.9	1.6	1.5	1.6	*3*	*0.3*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*24*	*0.0*
D. Implicit tax rates								%		
Consumption	12.7	14.3	15.4	18.9	20.0	20.0	20.4	21.4	*14*	
Labour employed	21.5	22.8	22.2	22.7	22.7	24.5	24.1	24.0	*26*	
Capital	23.8	22.0	22.5	22.5	23.1	27.0	30.6	50.5		
Capital and business income	17.9	17.7	18.6	17.4	15.7	18.9	23.5	38.2		
Corporations	25.2	24.3	24.7	22.1	18.9	23.6	26.8	38.7		
Households	7.0	6.3	8.8	11.1	10.5	11.0	15.3	27.1		
Real GDP growth (annual rate)	5.0	4.0	2.1	1.9	4.2	3.9	4.1	4.4		
Output gap (potential)	2.2	3.0	1.7	-0.2	-0.7	-1.1	-0.8	0.0		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

CYPRUS

Overall trends in taxation

Structure and development of tax revenues

In 2007, the overall tax burden (including social contributions) increased significantly (by 5.1 percentage points) reaching 41.6 % of GDP. Cyprus' tax burden is now more than four percentage points of GDP above the EU average (EU-27 37.5 %), with the Nordic Countries, Belgium, France, Italy and Austria recording higher rates.

The tax structure of Cyprus' tax system stands out in several respects. Cyprus displays the second highest reliance on indirect taxes in the EU-27 after Bulgaria. It derives 47.9 % of tax revenues from indirect taxes (EU-27 38.4 %), of which VAT accounts for more than half. This is due to the high share of consumption in the economy, as VAT rates are moderate. Direct taxes account for a proportion of revenue (33.6 %) in line with the EU average; however, they are more heavily based on CIT revenues (16.6 %) than in all other EU-27 countries except for Malta. On the contrary, PIT taxes only contribute three quarters of EU-27 average to the total tax revenues (15.1 %, EU-27 20.6 %). Social contributions account for a less than one fifth of receipts, well below EU-27 average. The share of revenue received by the social security funds have decreased markedly since the late 1990s.

The share of taxes received by local government is negligible (1.3 % of total taxation in 2007); only Greek local government receives a lower share in tax revenues.

The tax-to-GDP ratio has increased substantially (more than 11 percentage points) since 2000, albeit starting from a very low level. The increase was steady, but was most notable in 2005 and 2007, when the pick-up amounted to more than five percent of GDP. Compared to 2000, revenue went up in all major tax categories, but the increase was strongest in indirect taxes — in particular in VAT — which almost doubled. However, the spike in direct tax revenues in 2007 appears to be temporary. It seems to be rather due to the high level of activity in the construction and property sector, the improved profitability of the corporate sector as well as improved tax collection methods, than changes in the tax system.

Taxation of consumption, labour and capital; environmental taxation

Revenues from taxes on consumption as a percentage of GDP (16.4 %) are well above the EU-27 average (12.4 %). This level of revenues is largely due to a high consumption share in the economy, ten percentage points above the EU-27 average. In addition, Cyprus has been following a strategy of raising primarily consumption taxes. VAT and excise duties revenues were boosted by increases in minimum tax rates prescribed by the *acquis*; furthermore, several VAT base broadening measures were introduced since EU accession.

In 2000, the implicit tax rate on consumption was the lowest of the EU-27 Member States; it now ranks at the median. Despite low VAT rates, the ITR on consumption is currently only 0.8 percentage points lower than the EU-27 average, reaching 21.4 %. This discrepancy is likely to be at least partly due to the construction boom of the last years, as VAT spent on building and renovation is counted as consumption tax revenue is this report[1)].

1) The numerator of the ITR comprises VAT revenue on construction, whereas the denominator, in line with national accounts, excludes expenditure in construction, as that is considered investment rather than consumption. This results in an upwardly biased measure of the ITR on consumption. Owing to lack of data, it is at present not possible to correct for this effect.

Taxes on employed labour represented 11.0 % of GDP in 2007, constituting roughly one quarter of the overall tax burden. Despite an increase in the ITR on labour by 2.5 percentage points since 2000, Cyprus still exhibits the second lowest ITR on labour in the Union after Malta. The value is 24 % compared with 34.4 % in the EU-27 average.

The share of taxes on capital in GDP (14.2 %) is highest in the EU, almost twice the EU-27 average. This is mainly due to the capital income taxation of corporations, which includes the Defence Contributions, and the capital income taxation of households, which is four times higher than the EU-27 average. Since 2004, the ITR on capital more than doubled, reaching 50.5 % in 2007 — more than 20 percentage points above EU-25 and euro area averages. However, the major part of this increase (about 20 percentage points) took place in 2007 when tax revenues soared due to the booming real estate and construction sector. The observed rise in the ITR most likely overstates the underlying development because, while capital gains taxes from real estate sales form part of the nominator of the ITR on capital, capital gains are not part of profits in national accounts and hence are not comprised in the ITR's denominator.

The share of environmental taxes in GDP in Cyprus (3.4 %) is the fifth highest in the Union, following Denmark, the Netherlands, Malta and Bulgaria. This is mainly due to the large share of transport taxes (1.6 % of GDP), 0.9 percentage points above the EU-27 average. Revenue from energy taxes has more than doubled since 2000 as a proportion of GDP, but has been trending downwards in the past few years.

Current topics and prospects; policy orientation

The restructuring of the tax system in order to achieve a more efficient allocation of resources and support the supply side of the economy, is a key policy priority for Cyprus. To this end, a major step was the comprehensive 2002–04 reform, which aimed at harmonising the tax system with the EU's code of conduct on business taxation, simplifying income tax law, and bringing VAT and excise rates in line with EU requirements.

As the jump in tax revenues in 2007 was due to extraordinary economic developments, in particular in the real estate sector, revenue growth is expected to decelerate considerably in the coming years. Moreover, several tax reducing measures have been taken such as the increase in the zero-rate income bracket, a reduction of several VAT rates as well as cuts in energy and transport taxes. To combat the global economic crisis, further tax cuts were introduce in 2009, amounting to 0.2–0.3 % of GDP. To improve the competitive situation of the Cypriot tourism sector, the government reduced temporarily VAT for hotel accommodation by three percentage points to 5 %, decreased airport landing fees levied on airline companies and cancelled overnight stay fees levied by local authorities.

Furthermore, the government decided to reduce the corporate tax rate for semi-governmental organisations from 25 % to 10 %, bringing it in line with the corporate tax rate applied to non-governmental corporations.

Main features of the tax system

Personal income tax

Cyprus applies a personal income tax with a progressive rate structure. After 1991, three brackets were used, with rates set at 20 %, 30 % and 40 %. The rates were reduced, however, in 2003 to 20 %, 25 % and 30 %. There is a standard relief (basic allowance) which has been progressively raised from € 8 500 in 1995 up to € 19 500 in 2009, as a result of which the number of people subject to personal income tax has decreased substantially.

Capital gains are, in general, not taxable. Gains on the disposal of immovable property located in Cyprus are taxed at 20 %. The capital gain is the difference between the sales proceeds and the original cost, adjusted to take into account increases in the cost of living index.

Corporate taxation

Cyprus has lowered its corporate tax rate from 20–25 % (stable since 1991) to 10 % from 1 January 2003. For semi-governmental bodies the tax rate has remained 25 % until 2009. In the years 2003 and 2004, there was an additional 5 % corporate tax for chargeable income exceeding € 1.7 million. Alongside the reduction of the tax rate, several tax incentives have been abolished. Special regimes apply, however, to the shipping sector. Companies can carry forward trading losses indefinitely (up to 2002 a five-year limit applied), but carrying back is not allowed. Inventories may be valued at the lower of cost or net realisable value.

VAT and excise duties

The current VAT rate is 15 % (the standard rate was 10 % until the second half of 2002, but was increased to 13 % on 1 July 2002 and to 15 % in January 2003). Reduced rates range from 0 % to 8 %. Cyprus has requested transitional measures, a zero VAT rate on foodstuffs and pharmaceuticals, a reduced VAT rate on restaurants and a VAT exemption for land. During the years 2007–09, several amendments to the VAT law aimed at applying reduced VAT rates, or applying the lowest reduced VAT rate on a number of services.

The excise duties on energy, in particular on unleaded petrol and on diesel fuel will be gradually aligned with the EU minima using the derogations provided.

Wealth and transaction taxes

There are neither net wealth taxes nor inheritance and gift taxes in Cyprus. Immovable property located in Cyprus is subject to a real estate tax, which is levied on the estimated market value of the property in 1980. Rates range from 0 % to 0.4 %.

Social contributions

Employers' social security contributions are due for the Social Security Fund, redundancy insurance and for the Training Development Fund. Altogether, the employers' contribution rate amounts to 8 %. Employers must also pay a payroll tax (2 % of gross wage) to the social cohesion fund, which is not deductible for corporate income purposes. Employees pay 6.3 % of their salary as social security contribution up to a ceiling of € 46 023. The self-employed pay 11.6 % of notional income as social security contribution.

Other taxes

All residents are subject to the Defence Contribution, which is a final levy and not deductible for income tax purposes. It is applied with different rates on dividends, interest, rental payments and the taxable income of public corporate bodies. Dividends are subject to the Defence Contribution at a rate of 15 %, with the contribution on domestic dividends withheld at source. Interest payments not accruing from ordinary business activities are subject to the Defence Contribution at a rate of 10 %. Individuals with an annual income not exceeding € 11 960 may apply for a 7 % refund. A 3 % rate applies to interest on savings certificates issued by the government; however, dividends and interest are not subject to personal income tax. Rental payments are subject to the Defence Contribution at a rate of 3 %. Defence Contributions have gone through many permutations and the current system has existed only since 1 January 2003. This reform changed the tax from a levy on earned income (salaries and profits) to the current levies on unearned income.

Czech Republic	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking 1)*	*€ bn*
Indirect taxes	11.3	11.0	10.8	11.1	11.8	11.8	11.3	11.3	*27*	*14.3*
VAT	6.5	6.3	6.3	6.4	7.3	7.2	6.6	6.6	*23*	*8.4*
Excise duties and consumption taxes	3.3	3.3	3.2	3.4	3.5	3.7	3.7	3.8	*3*	*4.8*
Other taxes on products (incl. import duties)	1.0	0.8	0.8	0.8	0.5	0.5	0.5	0.5	*22*	*0.6*
Other taxes on production	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	*25*	*0.5*
Direct taxes	8.3	8.8	9.1	9.6	9.6	9.2	9.2	9.3	*19*	*11.8*
Personal income	4.6	4.5	4.7	4.9	4.8	4.6	4.2	4.3	*24*	*5.5*
Corporate income	3.5	4.1	4.3	4.6	4.7	4.5	4.8	4.8	*4*	*6.2*
Other	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	*25*	*0.2*
Social contributions	14.2	14.2	14.9	15.0	16.0	16.1	16.3	16.3	*1*	*20.7*
Employers´	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.3	*3*	*13.1*
Employees´	3.5	3.5	3.6	3.7	3.6	3.6	3.6	3.6	*10*	*4.6*
Self- and non-employed	0.7	0.8	0.8	0.9	2.1	2.1	2.3	2.4	*5*	*3.0*
B. Structure by level of government								% of GDP		
Central government	25.7	26.2	26.3	26.9	27.1	25.9	25.5	25.7	*7*	*32.6*
State government 2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	4.1	3.8	4.3	4.5	4.7	5.4	5.2	5.2	*7*	*6.6*
Social security funds	4.1	4.0	4.2	4.3	5.4	5.5	5.7	5.7	*21*	*7.2*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.3	0.3	*10*	*0.4*
C. Structure by economic function								% of GDP		
Consumption	10.6	10.2	10.1	10.4	11.2	11.3	10.7	10.7	*23*	*13.6*
Labour	17.1	17.0	17.8	18.1	17.9	18.0	17.8	17.8	*12*	*22.6*
Employed	17.1	17.0	17.8	18.1	17.8	17.9	17.7	17.8	*11*	*22.6*
Paid by employers	9.9	9.9	10.4	10.5	10.3	10.3	10.3	10.3	*5*	*13.1*
Paid by employees	7.2	7.1	7.4	7.6	7.5	7.6	7.4	7.5	*17*	*9.5*
Non-employed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*27*	*0.0*
Capital	6.2	6.7	6.9	7.2	8.3	7.9	8.3	8.4	*11*	*10.6*
Capital and business income	5.1	5.8	6.0	6.3	7.7	7.2	7.6	7.7	*6*	*9.7*
Income of corporations	3.5	4.1	4.3	4.6	4.7	4.5	4.8	4.8	*4*	*6.2*
Income of households	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	*25*	*0.1*
Income of self-employed (incl. SSC)	1.5	1.5	1.6	1.6	2.8	2.6	2.7	2.7	*3*	*3.5*
Stocks of capital / wealth	1.0	1.0	0.9	0.9	0.7	0.7	0.7	0.7	*24*	*0.9*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**33.8**	**34.0**	**34.8**	**35.7**	**37.4**	**37.1**	**36.7**	**36.9**	***14***	***46.9***
								% of GDP		
Of which environmental taxes	2.6	2.6	2.5	2.6	2.6	2.7	2.6	2.5	*14*	*3.2*
Energy	2.1	2.3	2.2	2.3	2.4	2.5	2.4	2.3	*5*	*2.9*
Of which transport fuel taxes	-	-	-	-	2.3	2.3	2.2	2.2	*2*	
Transport	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	*25*	*0.2*
Pollution/resources	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*19*	*0.0*
D. Implicit tax rates								%		
Consumption	19.4	18.9	19.3	19.6	21.8	22.2	21.1	21.4	*13*	
Labour employed	40.7	40.3	41.2	41.4	41.8	41.7	41.1	41.4	*5*	
Capital	20.9	22.3	23.7	24.8	28.0	25.6	25.9	25.6		
Capital and business income	17.4	19.1	20.7	21.8	25.7	23.3	23.7	23.5		
Corporations	26.2	28.3	30.3	32.0	29.8	25.4	25.6	24.1		
Households	9.2	9.5	10.3	10.5	18.2	17.3	17.6	18.7		
Real GDP growth (annual rate)	3.6	2.5	1.9	3.6	4.5	6.3	6.8	6.0		
Output gap (potential)	-1.7	-1.7	-2.9	-3.0	-2.6	-0.6	1.7	2.9		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

CZECH REPUBLIC

Overall trends in taxation

Structure and development of tax revenues

In 2007, the Czech Republic's total fiscal revenue was 36.9 % of GDP. This tax ratio is marginally below the EU-27 average (37.5 %). Compared to neighbouring countries, the ratio is lower than in Austria and Germany but higher than in Slovakia and Poland.

The main source of tax revenue is social security contributions, which reach 44.2 % of total taxes and are over 14 percentage points above the EU-27 average (29.5 %). The share of Czech social contributions in total revenues is the highest in the EU, followed by France and Germany. The share of direct taxes (25.3 % of total taxation) is 7.0 percentage points below the Union average (32.3 %), as these levies play a less important role than indirect taxes (30.5 %). Given the predominance of social security contributions, the other sources of revenues tend to fall below the EU average. In particular, indirect tax revenue is the lowest in the EU as a percentage of GDP. Moreover, PIT revenue stands at 4.3 % of GDP, among the lowest values of the EU. The Czech Republic is one of only four EU countries where CIT revenues are more sizeable than PIT revenues. In 2007, CIT revenue, which is relatively high in the Czech Republic (1.3 percentage points above the EU-27 average), exceeded PIT revenue by 0.5 percentage points of GDP. Despite the forceful cut in the CIT rate from 55 % in 1991 to 20 % in 2009, CIT revenues have not markedly reduced until now.

Since the structure of the tax system is quite centralised, local government receives a rather small proportion of total tax revenues (14.1 %), although this amount increased compared to the beginning of the century. The central government receives 69.6 % of total taxes, over 10 percentage points more than the EU-27 average (59.4 %). This level is the eighth highest in the EU.

The total tax burden rose steadily from 2000 to 2004 peaking at 37.4 % of GDP. In the 2005–2007 period the tax-to-GDP ratio has remained below this level (being 36.9 % in 2007 in line with the EU-27 average), although GDP growth was stronger than in the early 2000s.

Taxation of consumption, labour and capital; environmental taxation

The tax mix by economic function is consistent with the structure described above: taxation on labour is the main source of revenue (48.3 %, 2.9 percentage points above the EU-27 average), followed by consumption (29.0 %) and capital (22.7 %). The greater part of the taxes on capital is borne by corporations.

The implicit tax rate (ITR) on consumption is 0.8 percentage points below the EU-27 average (22.2 %). The implicit tax rate (ITR) on consumption has substantially grown in recent years, due to the 2004 revision of consumption taxation. Selected goods and services earlier taxed at a reduced 5 % VAT rate were made subject to the standard EU rate in two steps; from 1 January 2004 (e.g. telecommunications) and from 1 May (e.g. construction works). On the other hand, from 1 May 2004, the standard VAT rate was cut from 22 % to 19 %. The ITR dropped by 1.1 percentage points in 2006 and picked up again by 0.3 percentage points in 2007 being nevertheless broadly in line with the EU-27 average.

The ITR on labour income has dropped from its peak level of 41.8 % in 2004 but not very much remaining above the 41 % level. This level is comparatively high, 7.0 percentage points above the EU-27 average. The elevated ratio is linked to the high level of social security contributions.

The ITR on capital increased gradually from 2000 to 2004, but then the trend inverted. During 2005–2007, the ITR on capital declined to 25.6 % (3.1 percentage points below the EU-25 average).

Environmental taxes represent 2.5 % of GDP. This value is slightly below the EU average (2.7 %) and has remained roughly constant during the past seven years. However, in 2008 the Czech Republic introduced an environmental tax reform that will lead to an increase of excise revenue on electricity, natural gas and solid fuels.

Current topics and prospects; policy orientation

The 2008 tax reform introduced important changes in the tax system of the country. In addition to introducing a 15 % flat personal income tax rate and reducing the corporate income tax rate from 24 % to 21 %, there will be a further gradual cut in the CIT rate in accordance with the approved legislation: to 20 % in 2009 and further to 19 % in 2010.

A series of measures aiming at reducing social security contributions were introduced. From 2008, a ceiling was introduced for the annual assessment base for social and health insurance premiums amounting to four times the average annual wage in the national economy. As of 2009, the social security contributions paid by employees is lowered by a total 1.5 percentage points while as regards employers, in accordance with the new Act of Sickness Insurance, the rate is lowered by 1.0 percentage point. From 2010 another cut in the rate of the contributions paid on the side of employers, by 0.9 percentage points, is planned. The Czech Republic is set to implement an environmental tax reform, in line with EU requirements. New taxes on electricity, natural gas and solid fuels were introduced in 2008. During the first phase, tax rates will be set at the level of the minimum tax rates under European legislation. In the second phase, gradual increases in the rates may be considered.

In response to the economic crisis, among other measures, the Czech Republic lowered the VAT rate for labour intensive local services and introduced a VAT deduction on passenger cars for entrepreneurs.

Main features of the tax system

Personal income tax

Until 2007, the Czech Republic applied progressive personal income taxation with four brackets, where the top rate was 32 %. A flat tax rate of 15 % was introduced in 2008. From 1 January 2008, the employee's taxable income includes the social security and health insurance contributions payable by the employer. The personal tax credit, the tax credit for non-earning spouses, the tax credit for dependant children as well as other tax credits were significantly increased in 2008.

Corporate taxation

The corporate income tax rate was gradually reduced from 24 % in 2007 to 20 % in 2009. The rate for all withholding taxes is 15 %, and the reduced rate is 5 %. A 15 % rate applies to interest, dividends and royalties for both resident and non-resident and for both corporations and individuals. Dividends paid and capital gains derived by parent companies registered in an EU Member State are exempt from the withholding tax. In general, dividends paid to non-residents are subject to 15 % withholding tax, unless a double tax treaty provides otherwise. Dividends and interest paid to qualifying foreign pension may be exempt from the withholding tax. In addition, qualifying foreign pension funds may benefit from a reduced 5 % corporate income tax rate.

VAT and excise duties

The VAT regime was brought in line with the sixth Directive in 2004. The standard VAT rate is 19 % and applies to most goods and services; the reduced rate is 9 % and applies to certain services and essential goods (e.g. food, drugs, construction works for housing). Certain services (e.g. banking services, insurance, financial operations) are exempted.

Excise tax is imposed on mineral oils, lubricants, spirits, beer, wine and tobacco products. A suspension regime has been in place since 2004. The transitional period for delayed implementation of the excise duty rates on cigarettes and other tobacco products ended in 2007. Starting in 2008, taxes on cigarettes and tobacco were increased. Another change in excise taxes is the introduction of an environmental tax on electricity, natural gas and solid fuels. Reductions in taxation are available for renewable and alternative electricity, biogas and CHPs and specified environmentally sound vehicles. A tax refund is available also for public transportation using green electricity.

Wealth and transaction taxes

There is an inheritance and gift tax, a real estate transfer tax and a real property tax. For movable assets, the tax base is the market price. For immovable assets, the tax base is in most cases the official valuation of the assets. The acquisition of movable property by inheritance is exempt from taxes for direct and indirect (since 2008) relatives and spouses of the owner. The tax rate is based on the value of property. This ranges for the gift tax from 7 % to 40 % and from 3.5 % to 20 % for the inheritance tax. The real estate transfer tax rate is 3 % of the price of the property.

Social contributions

Employers, employees and self-employed persons must make social security contributions that cover health, occupational disability, old-age pension and unemployment insurance. Since the introduction of the flat rate, social security contributions are fully taxable. From 1 January 2009 the employees' total rate for premiums to social security contributions was reduced from 8 % to 6.5 % (comprised of 6.5 % contributions to pension insurance). Employers' contributions total rate was reduced from 35 % to 34 % (reduction in the rate of sickness insurance contributions from 3.3 % to 2.3 %). The maximum assessment base is CZK 1 034 880 (€ 40 600).

Denmark	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1)]	*€ bn*
Indirect taxes	17.2	17.4	17.5	17.4	17.6	18.0	18.1	18.0	*3*	*40.9*
VAT	9.6	9.6	9.6	9.6	9.8	10.1	10.3	10.4	*3*	*23.6*
Excise duties and consumption taxes	4.1	4.1	4.1	4.0	3.8	3.5	3.4	3.2	*12*	*7.3*
Other taxes on products (incl. import duties)	2.0	1.8	2.0	1.9	2.2	2.6	2.6	2.6	*7*	*5.8*
Other taxes on production	1.6	1.8	1.8	1.8	1.8	1.7	1.7	1.8	*9*	*4.0*
Direct taxes	30.5	29.5	29.3	29.5	30.4	31.9	30.6	29.8	*1*	*67.5*
Personal income	25.6	26.0	25.7	25.6	24.9	24.9	24.8	25.2	*1*	*57.1*
Corporate income	3.3	2.8	2.9	2.9	3.2	3.9	4.4	3.6	*10*	*8.2*
Other	1.6	0.7	0.7	1.1	2.3	3.1	1.5	1.0	*6*	*2.2*
Social contributions	1.8	1.7	1.2	1.2	1.2	1.1	1.0	1.0	*27*	*2.3*
Employers´	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*27*	*0.0*
Employees´	1.8	1.7	1.2	1.2	1.1	1.1	1.0	1.0	*25*	*2.2*
Self- and non-employed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*27*	*0.0*
B. Structure by level of government								% of GDP		
Central government	31.0	29.7	29.5	29.6	30.9	32.8	31.8	35.8	*1*	*81.0*
State government [2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	16.5	17.0	17.1	17.2	16.9	16.9	16.7	11.8	*2*	*26.8*
Social security funds	1.8	1.7	1.2	1.2	1.2	1.1	1.0	1.0	*25*	*2.2*
EU institutions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	*24*	*0.5*
C. Structure by economic function								% of GDP		
Consumption	15.7	15.7	15.8	15.6	15.8	16.2	16.3	16.2	*3*	*36.8*
Labour	26.6	26.9	26.1	26.0	25.2	24.8	24.5	24.8	*2*	*56.2*
Employed	21.7	22.1	21.2	20.9	20.3	20.0	20.0	20.4	*5*	*46.2*
Paid by employers	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	*27*	*1.2*
Paid by employees	21.3	21.5	20.7	20.4	19.8	19.5	19.5	19.9	*1*	*45.0*
Non-employed	4.9	4.8	4.9	5.1	4.9	4.8	4.5	4.4	*1*	*10.0*
Capital	7.2	6.0	6.1	6.6	8.2	10.0	8.9	7.8	*13*	*17.6*
Capital and business income	4.8	3.4	3.4	3.8	5.4	7.3	6.2	5.0	*19*	*11.4*
Income of corporations	3.3	2.8	2.9	2.9	3.2	3.9	4.4	3.6	*10*	*8.2*
Income of households	0.4	-0.6	-0.5	-0.1	1.2	2.3	0.8	0.4	*18*	*0.8*
Income of self-employed (incl. SSC)	1.1	1.2	1.0	1.0	1.0	1.1	1.1	1.1	*16*	*2.4*
Stocks of capital / wealth	2.4	2.6	2.7	2.8	2.8	2.8	2.8	2.7	*9*	*6.2*
Less: amounts assessed but unlikely to be collected	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1		
TOTAL	**49.4**	**48.4**	**47.8**	**48.0**	**49.0**	**50.8**	**49.6**	**48.7**	***1***	***110.3***
								% of GDP		
Of which environmental taxes	5.3	5.2	5.4	5.2	5.6	6.0	6.2	5.9	*1*	*13.4*
Energy	2.6	2.7	2.7	2.7	2.6	2.5	2.4	2.3	*6*	*5.1*
Of which transport fuel taxes	-	1.3	1.3	1.3	1.3	1.3	1.2	1.2	*22*	
Transport	1.8	1.7	1.9	1.8	2.0	2.2	2.3	2.2	*1*	*5.0*
Pollution/resources	0.8	0.8	0.8	0.8	1.0	1.3	1.6	1.4	*1*	*3.2*
D. Implicit tax rates								%		
Consumption	33.4	33.5	33.7	33.3	33.3	33.9	34.0	33.7	*1*	
Labour employed	41.0	40.8	38.8	38.1	37.5	37.1	37.1	37.0	*10*	
Capital	36.0	30.8	30.7	36.7	45.8	49.8	44.8	44.9		
Capital and business income	23.8	17.5	17.2	21.3	30.2	36.1	31.0	29.1		
Corporations	24.4	21.9	21.1	23.2	26.7	29.1	32.3	30.8		
Households	19.6	7.7	7.8	13.3	29.8	42.0	21.9	19.5		
Real GDP growth (annual rate)	3.5	0.7	0.5	0.4	2.3	2.4	3.3	1.6		
Output gap (potential)	2.4	1.1	-0.2	-1.4	-0.8	-0.1	1.6	1.2		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

DENMARK

Overall trends in taxation

Structure and development of tax revenues

Although the tax-to-GDP ratio has dropped by over two percentage points from 2005 to 48.7 % in 2007, Denmark still shows the highest ratio in the EU. The drop primarily reflects the fact that the tax on pension fund yield was at an exceptionally high level in 2004 and 2005, contributing thus to the high ratio in those years. The tax on pension fund yield depends on financial market developments and may fluctuate considerably from one year to the next. It should also be noted that the tax-to-GDP ratio overestimates the Danish tax burden somewhat in relation to other countries, since transfer incomes (for example, pensions) are taxed, and not paid out on a net basis, although no corresponding income is taken into account when measuring GDP.

The Danish tax structure stands out in a number of respects. Social contributions are very low as most welfare spending is financed out of general taxation, notably personal income taxation. Correspondingly direct taxes form 61.2 % of total tax revenues (EU-27 32.3 %). Personal income taxes form the bulk of direct taxes, representing 51.8 % of total taxation in 2007. In contrast, the proportion of indirect taxes was 37.1 %, which is slightly below the EU-27 average (38.4 %). This is not due to a low absolute level of indirect taxation, however, but rather to the fact that the revenues from other taxes are high in comparison with other countries.

In terms of the distribution of revenue between levels of government, Denmark differs substantially from the EU average because of the small role played by social security funds. As a result, the share of taxes raised by central government and particularly local government is elevated, respectively 73.5 % and 24.3 % (EU-27 59.4 % and 11.1 %).

Taxation of consumption, labour and capital; environmental taxation

The implicit tax rate on consumption, at 33.7 % (EU-27 22.2 %), remains the highest amongst the Member States. The rate is slightly lower than in the previous year (34.0 %).

Despite the generally high level of taxation, the ITR on labour, at 37.0 %, is not amongst the EU's highest, but is exceeded in nine other Member States. It has been steadily falling since 2000, resulting at least partly from labour tax cuts introduced in 1999–2002 and 2004.

The overall ITR on capital (44.9 %) is currently among the highest in the EU, but has decreased considerably from its peak of 49.8 % in 2005. The ITR on capital displays a strong fluctuation over the years, reflecting the fluctuation in the yield from pension scheme assets and thus the tax on these.

Particularly since the environmental tax reform implemented in 1994–2002, Denmark has a comprehensive and ambitious energy tax system. All energy products, including coal, natural gas and electricity, are subject to both CO_2 tax and energy tax. VAT registered companies do not pay energy tax for the energy used in industrial processes, and are also entitled to a refund of their CO_2 tax, the amount of which depends on whether the process is defined as heavy or light and whether the company has concluded an energy saving agreement with the government or not. In 2007 environmental taxes yielded 5.9 % of GDP, the highest proportion in the EU by a wide margin.

Current topics and prospects; policy orientation

In 2009 the economic prospects in Denmark have weakened largely due to the turmoil in financial markets and the economic recession in its main export markets. The GDP growth is expected to turn slightly negative in 2009 (–0.2 %), unemployment is expected to increase from its currently very low level (1.7 % in 2008) to about 3.5 % in 2010 and general government fiscal surpluses are shrinking to reach balance in 2009 and turn to a deficit of 1.2 % of GDP in 2010. These developments are not, however, likely to jeopardise the long-term objective of fiscal sustainability.

Under these conditions fiscal policy is expansionary due to growth of public expenditure and cuts in personal income taxes. Also automatic stabilisers contribute to stimulate the economy. In 2009 the tax cuts consist of the increase of the earned income tax credit from 4 % to 4.25 %, the increase of personal allowance from DKK 42 400 (€ 5 700) to DKK 42 900 (€ 5 750) and the increase of the middle tax bracket basic allowance from DKK 289 300 (€ 38 850) to DKK 34 200 (€ 46 600). Furthermore, savings of almost DKK 50 billion in the compulsory supplementary pension scheme in place from 1998–2003 can be withdrawn in 2009 with a favourable tax treatment.

The government has initiated a major tax reform to be phased in from 2010 to 2019. The reform aims at reducing the high marginal tax rates on personal income and thus to stimulate labour supply in the medium to long-term. The main measures is to reduce the rate of the bottom bracket tax from 5.26 % to 3.76 %, abolish the medium tax bracket with the 6 % rate altogether, and increase the allowance of top tax bracket to DKK 389 900 in 2010 and DKK 424 600 in 2011. The ceiling of the top marginal tax rate will be reduced from the current 59 % to 51.5 % in 2011. The impact of these measures on the government tax revenues is about DKK 24 billion (€ 3.2 billion) in 2010.

The tax reform is planned to be revenue neutral as a whole, but is stimulating the economy by DKK 14 billion (€ 1.9 billion) in 2010. The reform is partly financed by higher energy, transport and environmental taxes to support the energy and climate policy objectives of the government, and also by increases of excise rates on health-related goods (fat, candy, sugary drinks, tobacco). These increases are partly compensated to the households by giving a ‘green check’ of DKK 1 300 (€ 175) to everybody above 18 years and DKK 300 per child for up to two children. The ‘green check’ is phased out for income above DKK 360 000 (€ 48 300). These measures will increase government tax revenues by about DKK 9.5 billion (€ 1.3 billion) in 2011. Broadening of the tax base is another main source financing the reform. The measures include a gradual reduction of the tax value of assessment oriented deductions and limitations of the tax deductibility of net interest payments over a certain threshold. Also the deductibility of payments to individual pension insurance schemes is limited, as well as tightening of the tax treatment of company cars and other fringe benefits. Also certain other measures, which will increase the tax burden on enterprises by around DKK 5 billion, are proposed.

Main features of the tax system

Personal income tax

Personal income taxation in Denmark is characterised by relatively high average and marginal tax rates. As in the other Nordic countries, local taxes play an important role in personal income taxation. Local tax rates are flat and vary from one municipality to the next. The average local PIT rate is 25.5 % in 2009 (including the church tax).

State income taxation is progressive and consists of three tax brackets. The lowest rate is 5.26 % and is paid on personal income (income minus labour market contribution) after the deduction of a personal allowance (DKK 42 900 in 2009, equivalent to € 5 750). In 2009 the medium rate is 6 % and is paid on the part of personal income, which exceeds an allowance corresponding to the top bracket tax allowance (DKK 347 200 in 2009, € 46 600). The top 15 % rate is also paid on the share of personal income plus individual contributions to capital pension schemes which exceeds the top bracket basic allowance. Because of the tax ceiling set at the 59 % marginal tax rate, the full 15 % is not paid in all municipalities. In addition to local and state income taxes, individuals pay an 8 % labour market contribution, calculated on the gross wage before deduction of any allowance, and since 2007 an 8 % health care contribution. Overall, the system is highly progressive with marginal rates ranging from 8 % (up to the amount of personal allowance) to 63 % (the upper ceiling plus the labour market contribution and the average church tax). The highest marginal tax rate will drop to 56.1 % in 2010 as a result of the new tax reform. However, only a minority of taxpayers pay progressive state taxes: in 2006 approximately 25 % of taxpayers fell in the medium bracket, while 20 % paid top tax bracket taxes.

Net capital income (positive or negative) is included in the tax base for both state taxes and local income taxes. However, though interest payments are a part of negative capital income, they are generally deductible from the flat local taxes, and not from the progressive state income taxes. Also the earned income allowance and some other deductions are taken into account only in calculating the local income tax base.

At the personal level, dividend income is taxed at two different rates: 28 % for the dividend income not exceeding a threshold (DKK 48 300, € 6 500 in 2009) and 43 % for income above this level. Also capital gains on selling shares are generally taxed at the same two rates (28 % or 43 % depending on whether the net gains are below or above the threshold) according to new rules adopted in 2006. As an element of the corporate tax reform of 2007, from 2008 a third rate at 45 % applies for dividend income and capital gains on selling shares above DKK 106 100 (€ 14 250).

Corporate taxation

The corporate tax rate has been gradually reduced from 30 % in 2005 to 25 % in 2007. There are no local taxes on corporations, but municipalities receive a share of corporate income tax revenue. Since 2004 there are mandatory national tax consolidation rules for permanent establishments and resident subsidiaries, while resident group-related subsidiaries of non-resident companies may apply for international consolidation. Loss carry-forward is allowed without limitation, but no carry-back is permitted. The CIT reform of 2007 introduced a limitation of interest deductibility through an EBIT rule and a ceiling over deductible interest (corresponding to 6.5 % of the tax assets except shares plus 20 % of the cost price of shares in foreign subsidiaries).

Tax depreciation is straight line over a 20 years period for buildings used for business purposes (not offices) and at a declining base for machinery and equipment (up to 25 %). The depreciation rate for buildings was reduced from 5 % to 4 % in 2008 as a part of the corporate tax reform, extending the depreciation period to 25 years. The depreciation rate for infrastructure was also reduced from 25 % to 7 % in 2008. Tax depreciation for ships, drilling rigs, aircrafts, and trains will gradually be lowered from 25 % in 2007 to 15 % in 2016. Inventories are valued on a FIFO basis. Acquired goodwill and the acquisition costs of know-how, patents, copyrights and other intangibles may be depreciated over seven years using the straight-line method.

VAT and excise duties

The VAT rate is 25 % and only newspapers are taxed at a zero rate. From 2008 onwards excise duties on energy are price-indexed and increased by 1.8 % annually. The proposed tax reform would further increase environment-related taxes and also introduce or increase taxes on certain goods harmful to health (see above).

Wealth and transaction taxes

Immovable property situated in Denmark is subject to municipal real estate tax. The rates vary between 1.6 % and 3.4 %.

Social contributions

As mentioned above, social security contributions play a limited role in Denmark.

Estonia	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1)]*	*€ bn*
Indirect taxes	12.4	12.4	12.5	12.2	12.3	13.5	13.8	14.2	*13*	*2.2*
VAT	8.5	8.2	8.4	8.2	7.7	8.7	9.3	9.3	*4*	*1.4*
Excise duties and consumption taxes	3.0	3.3	3.2	3.1	3.6	3.7	3.5	3.8	*4*	*0.6*
Other taxes on products (incl. import duties)	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.5	*23*	*0.1*
Other taxes on production	0.7	0.8	0.7	0.7	0.6	0.6	0.6	0.7	*21*	*0.1*
Direct taxes	7.8	7.3	7.6	8.1	8.0	7.0	7.2	7.8	*24*	*1.2*
Personal income	6.9	6.6	6.4	6.5	6.3	5.6	5.7	6.1	*17*	*0.9*
Corporate income	0.9	0.7	1.1	1.6	1.7	1.4	1.5	1.7	*26*	*0.3*
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*27*	*0.0*
Social contributions	11.0	10.7	11.0	10.6	10.4	10.3	10.3	11.0	*17*	*1.7*
Employers´	10.8	10.6	10.6	10.2	10.0	9.9	10.0	10.7	*2*	*1.6*
Employees´	0.0	0.0	0.3	0.3	0.3	0.3	0.2	0.2	*27*	*0.0*
Self- and non-employed	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	*24*	*0.0*
B. Structure by level of government								% of GDP		
Central government	22.6	22.1	22.5	22.3	21.8	21.9	22.3	23.4	*11*	*3.6*
State government [2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	4.3	4.1	4.0	4.0	4.0	4.0	4.1	4.4	*11*	*0.7*
Social security funds	4.3	4.2	4.6	4.6	4.6	4.6	4.5	4.9	*23*	*0.7*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.4	0.4	*6*	*0.1*
C. Structure by economic function								% of GDP		
Consumption	11.8	11.8	11.9	11.6	11.7	12.9	13.3	13.6	*6*	*2.1*
Labour	17.6	17.0	17.1	16.8	16.4	15.5	15.7	16.8	*14*	*2.6*
Employed	17.3	16.8	16.7	16.4	15.9	15.1	15.2	16.4	*13*	*2.5*
Paid by employers	10.8	10.6	10.6	10.2	10.0	9.9	10.0	10.7	*4*	*1.6*
Paid by employees	6.4	6.2	6.2	6.2	6.0	5.1	5.2	5.7	*23*	*0.9*
Non-employed	0.4	0.3	0.4	0.3	0.5	0.5	0.4	0.4	*19*	*0.1*
Capital	1.9	1.6	2.1	2.5	2.5	2.5	2.4	2.6	*27*	*0.4*
Capital and business income	1.2	1.0	1.4	1.9	1.9	1.9	1.9	2.1	*27*	*0.3*
Income of corporations	0.9	0.7	1.1	1.6	1.7	1.4	1.5	1.7	*27*	*0.3*
Income of households	0.2	0.1	0.2	0.2	0.1	0.3	0.2	0.3	*21*	*0.0*
Income of self-employed (incl. SSC)	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1	*26*	*0.0*
Stocks of capital / wealth	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.6	*27*	*0.1*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**31.3**	**30.5**	**31.1**	**30.9**	**30.7**	**30.9**	**31.3**	**33.1**	***21***	***5.0***
								% of GDP		
Of which environmental taxes	1.7	2.1	2.0	1.9	2.1	2.3	2.2	2.3	*18*	*0.4*
Energy	1.2	1.6	1.5	1.5	1.8	1.9	1.8	1.9	*11*	*0.3*
Of which transport fuel taxes	-	-	-	0.0	1.7	1.9	1.8	1.8	*7*	
Transport	0.2	0.2	0.2	0.0	0.1	0.1	0.1	0.1	*27*	*0.0*
Pollution/resources	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.4	*3*	*0.1*
D. Implicit tax rates								%		
Consumption	19.8	19.9	20.0	19.9	19.8	22.2	23.4	24.4	*9*	
Labour employed	37.8	37.3	37.8	36.9	36.1	34.1	33.9	33.8	*15*	
Capital	6.0	4.9	6.4	7.8	8.1	8.0	8.3	10.3		
Capital and business income	3.8	3.0	4.5	6.0	6.1	6.1	6.5	8.1		
Corporations	4.1	3.0	4.7	6.5	6.9	5.9	6.5	8.8		
Households	2.8	2.5	3.3	3.4	2.6	5.3	4.5	5.1		
Real GDP growth (annual rate)	9.6	7.7	7.8	7.1	7.5	9.2	10.4	6.3		
Output gap (potential)	-1.9	-0.3	0.7	0.5	1.1	3.5	7.1	7.7		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

ESTONIA

Overall trends in taxation

Structure and development of tax revenues

The tax-to-GDP ratio of Estonia (including social security contributions) rose to 33.1 % in 2007, which is nearly two percentage points higher than the previous year. Increases were recorded in all revenue categories — direct and indirect taxation, as well as social security contributions. The ratio lies over four percentage points below the EU average, but is somewhat higher than in the other Baltic States.

As in many other new Member States, the share of indirect taxes in total taxation is relatively high in Estonia (43 % in 2007); social security contributions also form an important proportion of total taxation (33.3 % in 2007, almost four percentage points above the Union average). The share of direct taxes, 23.7 % in 2007, has fallen by more than six percentage points since the late 1990s, following reforms that increased the basic allowance and decreased the tax rates on both personal and corporate income.

Local governments receive 13.4 % of tax revenues, which is the ninth highest proportion in the EU-27. Since 2004, the funding of local authorities is calculated based on gross income of residents before deductions instead of actual tax revenue, as was the case previously. This implies that the basic exemption and other deductions from taxable income impact only on the central government budget. Central government revenue accounts for 70.8 % of total taxation.

The overall tax burden in Estonia dropped by over 5 % of GDP between 1995 and 2000. After 2000, the overall tax ratio remained roughly constant at around 31 % up to 2006. The rise in 2007 is largely explained by the accumulated effects of several years of rapid economic growth. From 2008 onwards, as growth decelerates, the tax-to-GDP ratio is expected to decrease again towards the level of 31 %; projections are, however, difficult given the current economic situation.

Taxation of consumption, labour and capital; environmental taxation

The ITR on consumption displays an increasing trend since 2004, and is now at 24.4 % the ninth highest in the EU. Consumption tax revenues in relation to GDP show a similar trend, with a rapid increase from 2004 onwards. These developments reflect higher VAT and excise duty revenues due to rapidly growing private consumption, but are also influenced by the technical adaptation of the VAT system following accession to the European Union. This one-off measure resulted in a one-month shift in tax receipts and VAT revenues therefore decreased significantly in 2004.

The ITR on labour has been declining steadily since 2000, reflecting the cuts in personal income tax rates and the gradual increase in the basic allowance introduced by the tax reform. In 2007 it is at 33.8 %, below the EU-27 average (34.4 %), while four years earlier it still exceeded it.

Taxes on capital represent only 7.9 % of total tax revenues, the lowest proportion in the EU-27, in accordance with the very low effective taxation of capital income. The ITR on capital (10.3 %) is one of the lowest in the EU, although its level has steadily increased from 2001 onwards.

Revenue from environmental taxes is, at 2.3 % of GDP, clearly below the EU average (2.7 %). However, it is expected to increase in the future, as the government aims at financing reductions in personal income and corporate taxation partly through increases in environmental taxes and excise duties on alcohol and tobacco.

Current topics and prospects; policy orientation

The global economic crisis has affected the Estonian economy quite heavily in 2008. After many years of rapid expansion, GDP growth turned negative in 2008, due to the decrease of private consumption and investment, and is expected to remain so also in 2009. On the positive side, the inflation rate is expected to drop significantly, from 10.6 % to 0.7 % in 2009. The general government budget has shown hefty surpluses since 2002, but deteriorating economic conditions led to a budget deficit in 2008 (1.7 % of GDP), which is expected to repeated also in 2009 and 2010. The government goal is to restore the budget balance in the medium term, as well as to preserve the currency board system with a fixed exchange rate, in view of fulfilling the criteria required to become a full member of the European Economic and Monetary Union, which remains the main policy objective of the Estonian government.

The prudent fiscal policy stance is reflected also in tax policy. The long-term plan to cut the income tax rate by one percentage point annually has been postponed by one year. Thus the personal and corporate tax rates will be kept at 21 % in 2009, the level reached in 2008. Also the basic allowance (the amount of tax-free income) will remain EEK 27 000 (€ 1 730) in 2009. The increased basic allowance is applicable only from the second child (and not from the first child as in 2008).

The income tax cuts are part of a broader tax reform, the aim of which is to shift the tax burden from labour and production costs towards consumption, use of natural resources and the environment. Thus the excise duties on transport fuels were increased to the level of EU minimum rates already in 2008, two years earlier than the transition periods granted to Estonia would require. Taxes on natural gas and electricity were introduced (the latter being considerably above the current EU minimum level) and the tax exemption of shale-driven fuel has been abolished. The excise duty on alcohol was increased twice during 2008 (by 10 % and 20 %), and the excise duty on tobacco was increased to the level of EU minimum rates in 2008.

The tax burden on consumption is also due to some extent by the simplification of the VAT system, including notably the removal of reduced rates on certain products (medical equipment, distant heating) and by the hike in the reduced VAT rate from 5 % to 9 % in 2009. This reduced rate is applied on a narrow range of goods, which essentially includes books, periodicals, accommodation services, medicines and medical equipment for the personal use of the disabled.

Main features of the tax system

Personal income tax

Estonia is one of the Member States applying a flat-rate system to the PIT. The single tax rate, 21 % in 2008 and 2009, is applied on all labour and personal capital income (dividends, interests, capital gains, royalties etc.). Only income exceeding a given threshold is taxed. The amount of the basic allowance has been increased yearly from EEK 12 000 (approximately € 770) in 2003 to EEK 24 000 (€ 1 535) in 2006 and EEK 27 000 (€ 1 730) in 2008. An additional allowance (same amount as basic allowance) is given to one resident parent for each child of up to 17 years of age, starting with the second child. An increased basic allowance is also applied on pension income (€ 2 300). Mortgage interest payments and training expenses can also be deducted from taxable income. The total amount of allowances is limited to € 3 195 per taxpayer during the period of taxation, or to no more than 50 % of the taxpayer's income.

These basic allowances make the personal income tax system as a whole progressive, in the sense that the average tax rate increases with the income level, although the marginal tax rate remains constant.

Personal income tax is shared between the central and local governments; these receive 11.9 % of taxable income (from 2007), the remainder goes to the State level. The State is entitled to the entirety of the income tax paid by non-residents and to the income tax paid on pensions.

Corporate taxation

The corporate tax system was reformed in 2000 with the aim of providing more funds for investment and accelerating economic growth. The basic idea of the reform was to postpone the taxation of corporate income until the distribution of profits. Hence, the tax rate on retained earnings is zero, and distributed profits in gross terms are taxed at the same rate as personal income, i.e. at 21 % in 2008 and 2009. This tax rate is applied also to gifts, donations, non-enterprise expenses and fringe benefits. The system is applied to Estonian resident companies and permanent establishments of non-resident companies. The 21 % withholding tax applied on the dividends paid to non-residents was removed as of 1 January 2009. A withholding tax may still apply to other payments to non-residents, if they do not have a permanent establishment in Estonia or unless the tax treaties provide otherwise. The measures to reduce fraud and tax evasion include CFC rules and regulations for minimising the use of transfer-pricing schemes.

Estonia was granted a transitional period with respect to the application of the EC Parent-Subsidiary Directive until 31 December 2008, during which it could continue to apply its domestic rules. The Interest and Royalty Directive and the Savings Directive have been implemented through a parliamentary Act adopted in May 2004.

VAT and excise duties

The VAT regime has been brought in line with the sixth Directive. The standard rate has been stable since 1992 at 18 %. A 9 % reduced rate applies to a limited list of goods (see above).

Excise duties on alcoholic beverages and tobacco were increased substantially in 2008, and now exceed the EU minimum levels, in the case of alcohol by wide margins. The excise duties on unleaded petrol and diesel were increased to the EU minimum levels from 1 January 2008, implying a rise in rates by 25 % and 35 % respectively. The excise duty on light heating oil, which already exceeded the EU minimum level, was increased by nearly 40 %, and taxes on natural gas (at the EU minimum level) and electricity (well above the EU minimum level) were introduced as part of the green tax reform, as explained above.

Social contributions

Social security is financed largely through a social tax, which is paid by the employer, generally at a rate of 33 % of gross salary for each employed person. The self-employed also pay the social tax. A 13 % quota from the tax is transferred to the state health insurance system and the remaining 20 % to the state pension insurance system. Employees who have joined the second pension pillar (obligatory for those born after 1983) pay an additional 2 % of their salary to the personal pension account. In this case, the 20 % for the pension insurance system is divided as 16 % to the state pension insurance system (the first pillar) and 4 % to the mandatory funded pension system (the second pillar).

In 2002 an unemployment insurance premium was introduced. Since the beginning of 2006, the rate for employees has been 0.6 % of gross wage and for employers 0.3 % of the employees' gross wage. From 1 July 2009 the rates will be 1 % for employees and 0.5 % for employers. The social tax, comparable to the employers' social security contributions in other countries, is a fiscally important tax in Estonia. In 2007 these contributions represented 33 % of total taxation, which is by far the highest proportion in the EU. Employees' social contributions, in contrast, represented only 0.5 % of tax revenues.

Finland	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	13.9	13.4	13.7	14.2	14.0	14.1	13.8	13.3	*16*	*23.8*
VAT	8.2	8.0	8.1	8.5	8.5	8.7	8.6	8.3	*9*	*15.0*
Excise duties and consumption taxes	4.3	4.1	4.2	4.3	3.9	3.8	3.7	3.4	*9*	*6.0*
Other taxes on products (incl. import duties)	1.2	1.2	1.2	1.2	1.3	1.4	1.3	1.3	*14*	*2.4*
Other taxes on production	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	*27*	*0.4*
Direct taxes	21.4	19.2	19.1	18.0	17.8	17.9	17.5	17.8	*3*	*32.0*
Personal income	14.5	14.0	13.9	13.7	13.3	13.5	13.2	13.0	*3*	*23.4*
Corporate income	5.9	4.2	4.2	3.4	3.5	3.3	3.4	3.9	*7*	*7.0*
Other	1.0	1.0	1.0	1.0	1.1	1.0	1.0	0.9	*9*	*1.6*
Social contributions	11.9	12.0	11.9	11.8	11.7	12.0	12.1	11.9	*13*	*21.4*
Employers´	8.8	8.9	8.9	8.9	8.8	9.0	8.9	8.8	*8*	*15.7*
Employees´	2.2	2.2	2.1	2.1	2.1	2.2	2.3	2.3	*21*	*4.1*
Self- and non-employed	1.0	0.9	0.8	0.8	0.8	0.8	0.9	0.9	*15*	*1.6*
B. Structure by level of government								% of GDP		
Central government	25.6	23.2	23.9	23.7	23.5	23.6	22.8	22.5	*14*	*40.5*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	10.2	9.9	9.6	9.3	9.1	9.1	9.2	9.2	*3*	*16.5*
Social security funds	11.0	11.1	10.9	10.8	10.7	11.1	11.2	11.0	*14*	*19.8*
EU institutions	0.5	0.4	0.3	0.3	0.2	0.2	0.3	0.3	*23*	*0.5*
C. Structure by economic function								% of GDP		
Consumption	13.6	13.1	13.4	13.9	13.6	13.7	13.4	12.8	*10*	*23.0*
Labour	23.7	23.7	23.6	23.3	22.7	23.2	22.9	22.3	*6*	*40.1*
Employed	20.8	21.0	20.9	20.5	20.0	20.4	20.1	19.7	*6*	*35.3*
Paid by employers	8.8	8.9	8.9	8.9	8.8	9.0	8.9	8.8	*9*	*15.7*
Paid by employees	12.0	12.0	11.9	11.7	11.2	11.4	11.2	10.9	*8*	*19.6*
Non-employed	2.9	2.7	2.8	2.7	2.7	2.8	2.8	2.7	*4*	*4.8*
Capital	9.9	7.8	7.7	6.8	7.1	7.1	7.2	7.8	*12*	*14.1*
Capital and business income	8.6	6.6	6.4	5.6	5.8	5.7	5.9	6.5	*10*	*11.7*
Income of corporations	5.9	4.2	4.2	3.4	3.5	3.3	3.4	3.9	*7*	*7.0*
Income of households	1.1	0.9	0.6	0.6	0.7	0.8	0.9	1.0	*10*	*1.9*
Income of self-employed (incl. SSC)	1.6	1.6	1.7	1.6	1.5	1.6	1.6	1.6	*11*	*2.9*
Stocks of capital / wealth	1.3	1.2	1.3	1.2	1.4	1.4	1.3	1.3	*16*	*2.4*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**47.2**	**44.6**	**44.6**	**44.0**	**43.5**	**44.0**	**43.5**	**43.0**	***6***	***77.2***
								% of GDP		
Of which environmental taxes	3.1	2.9	3.0	3.2	3.2	3.1	3.0	2.8	*9*	*4.9*
Energy	2.0	1.9	2.0	2.0	1.9	1.9	1.8	1.7	*20*	*3.0*
Of which transport fuel taxes	-	-	1.4	1.4	1.4	1.4	1.3	1.3	*16*	
Transport	1.1	1.0	1.0	1.2	1.2	1.2	1.1	1.0	*6*	*1.8*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	*15*	*0.1*
D. Implicit tax rates								%		
Consumption	28.6	27.6	27.7	28.1	27.7	27.6	27.2	26.5	*6*	
Labour employed	44.1	44.1	43.8	42.5	41.5	41.5	41.6	41.4	*4*	
Capital	36.0	25.5	27.4	25.8	26.4	26.9	24.0	26.7		
Capital and business income	31.2	21.5	22.9	21.1	21.3	21.5	19.6	22.2		
Corporations	30.3	18.4	21.2	18.7	18.6	17.9	15.1	17.9		
Households	23.1	21.2	19.4	18.7	18.5	21.1	23.2	24.2		
Real GDP growth (annual rate)	5.0	2.6	1.6	1.8	3.7	2.8	4.9	4.5		
Output gap (potential)	3.2	2.0	0.2	-1.4	-0.9	-1.3	0.3	1.6		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

FINLAND

Overall trends in taxation

Structure and development of tax revenues

In Finland the overall tax burden (including social security contributions) was 43 % of GDP in 2007, slightly below the level of the previous year and down by more than four percentage points from 2000. Although the tax ratio is still among the highest in the EU, it has fallen slightly in relative terms and is now exceeded by five countries (Denmark, Sweden, Belgium, France and Italy).

Direct taxes, in particular on personal income, represent the most important category of revenue, accounting for 41.4 % of total taxation. The share of indirect taxes (30.9 %) is below the EU-27 average (38.4 %). Social contributions, mainly paid by employers, account for 27.7 %, which is less than in most other Member States.

Local governments receive a rather large proportion of total tax revenues (21.3 % in 2007). These taxes consist mainly of municipal income and real estate taxes. In this regard the tax structure of Finland is similar to those of Denmark and Sweden, where roughly a third of tax receipts go to the municipalities. Central government collects roughly half of all tax revenues and social security funds a quarter.

Since 2000 the overall tax burden has displayed a rather sustained downward trend. In both 2006 and 2007 the tax-to-GDP ratio fell by 0.5 percentage points from the previous year in spite of a pick up of GDP growth rate contributing to boosting tax revenues. The reduction has come both from direct and indirect taxation, but in recent years the reductions of indirect taxation have played a more important role than those of direct taxation.

Taxation of consumption, labour and capital; environmental taxation

The tax structure by economic factor in Finland (consumption 29.8 %, labour 52 % and capital 18.2 %) is marked by a somewhat higher share of labour and a correspondingly lower shares of consumption and capital taxation compared with the EU-27 averages (33.6 %, 45.2 % and 21.3 %).

The lower share of consumption taxation, however, reflects the high level of other taxes rather than a low tax burden on consumption. Indeed, the implicit tax rate (ITR) on consumption (26.5 %) is the sixth highest in the Union, although it has fallen somewhat relative to other countries and from the levels of late 1990s (29.4 % in 1999).

Labour taxes represented 22.3 % of GDP in 2007 (EU-27 17.2 %), which is close to four percentage points lower than in 1995, but still among the six highest ratios in the EU. In the 2000s the decline in labour tax revenues has somewhat slowed down compared with the late 1990s, but nevertheless, thanks to regular reductions in income taxes and social contributions, the drop in the ITR on labour has been significant, from 44.1 % to 41.4 % in six years.

The revenue from taxes on capital relative to GDP has dropped from its 2000 peak level (9.9 %) and remained relatively constant at around 7 % between 2003 and 2006, but rose again to 7.8 % in 2007. The ITR on capital was also at its record level in 2000 (36 %), mainly due to the strong economic upswing, after which it has fluctuated around 26 %. From 2005 to 2006 the ITR on capital displays a decline from 26.9 % to 24.0 %, but from 2006 to 2007 the overall ITR on capital rose again to 26.7 % mirroring a similar increase in the ITR on capital and business income, corporate income and capital income of households and self-employed. These developments reflect the economic upswing and the high profitability of companies in 2007.

Environmental tax revenues represent 2.8 % of GDP in 2007, close to the EU-27 average level (2.7 %) and the ninth highest in EU-27. The tax revenues have declined steadily since 2004 reflecting the fact that nominal tax rates have been kept constant and were raised only in 2008. The level of energy taxation in relation to GDP (1.7 %) is lower than the EU average (1.9 %) in 2007, while that of transport taxes (1 %) is somewhat higher due to relatively heavy vehicle taxation in the Finland.

Current topics and prospects; policy orientation

Due to the global economic crisis Finnish economic growth is predicted to slow down considerably and, according to recent forecasts, will turn negative in 2009. To stimulate the economy the government 2009 budget introduces a series of measures, the size of which corresponds to 1.7 % of GDP. Out of these measures a relatively large share, representing about 1.2 % of GDP, consists of tax cuts of various kinds, part of which were already included in the government programme. The two main tax measures are a PIT cut, and a lowering of companies' labour costs by removing the national pension contribution paid by employers. The contribution will be lowered by 0.8 percentage points as of 1 April 2009 and will be entirely abolished as of 1 January 2010. In personal income taxation, as in previous years, the tax rates of all the four state income tax brackets are reduced, but this year the reduction is somewhat more important than in the previous year, between 1 and 1.5 percentage points. A new labour income tax credit, targeted at low and medium-income earners, is introduced, replacing the former earned income tax credit in state taxation. These measures are estimated to reduce the state income tax revenues by € 1 030 millions in 2009. In addition the state income tax scale is adjusted for inflation by 4 %. In addition, the taxation of pension income is alleviated by adjusting pension income allowances in state and municipal income taxation, which is estimated to reduce tax revenues by over € 200 million.

Personal income taxation is slightly lightened also by an increase of the tax credit for paid household work to € 3 000 per taxable person. This implies that if a household pays a registered company for the work done in its own principal or secondary residence, or in those of parents or grandparents, it can deduct the costs up to € 3 000 (or up to € 6 000 in case of two earners) from income taxes. The eligible work includes all kind of household work, as well as the maintenance and renovation of houses.

In the field of indirect taxation, the VAT rate on food will be reduced from 17 % to 12 % as of 1 October 2009 in accordance with previous decisions and the government programme. The effect of the measure on government revenues is estimated € 500 million annually. The excise duties on alcohol and tobacco are increased by 10 %, which will increase government revenues by approximately € 100 million.

Main features of the tax system

Personal income tax

Since 1993 the taxation of personal income has been based on a dual system. Personal income is divided into two separate components, earned income and capital income, taxed according to different rates and principles.

Central government taxation of earned income is progressive. From 2007 onwards there are four tax brackets. Marginal rates range from 7 % to 30.5 %, the taxable income threshold being € 13 100 in 2009. The municipal income tax is levied at flat rates on earned income and the estates of deceased persons. The rate varies between 16.5 % and 21 %, the average being 18.59 %. The church tax rate varies between 1 % and 2 %.

An earned income allowance in municipal taxation was introduced in 1997 with the intention of increasing the take-home pay of low-income earners. It reaches its maximum at a low income level, and gradually decreases thereafter. Since 2006 an earned income tax credit targeted to low-income earners has also been granted in state income taxation. In 2009 the earned income tax credit in state income taxation is replaced by labour income tax credit.

Capital income is taxed at a uniform flat rate of 28 % and is levied on dividends, rental income, interest income, capital gains, income from the sale of timber and a share of business income. All expenses from acquiring or maintaining capital income, including interest payments, are deductible from taxable capital income. In addition, interest payments on owner-occupied housing and student loans guaranteed by the state are deductible. If these deductions exceed taxable capital income, 28 % of the deficit, up to a € 1 400 limit, can be credited against taxes paid on earned income.

Corporate taxation

Corporate tax is levied at a 26 % rate on all corporate income, out of which expenses incurred for the purpose of acquiring or maintaining business income are deducted. Exceptions to this rule are certain capital gains and dividends which are not included in taxable corporate income, certain expenses related to tax-free income and certain capital losses. No local taxes are levied on corporate income so that 26 % is the final tax rate. Depreciation allowances for fixed assets are calculated according to the pool basis declining balance method; the maximum annual rates with regard to the most common items are: 25 % for machinery and equipment and between 4 % and 7 % for buildings. The acquisition costs of intangible assets may be depreciated using a straight-line method over a period of 10 years. Losses are carried forward and set off in the subsequent ten tax years. No loss carry-back is allowed.

VAT and excise duties

The standard VAT rate has been 22 % since 1998. In addition there are two reduced rates: 17 % for food and 8 % for a list of goods, including medicines, books and subscriptions for newspapers. The VAT rate on food is reduced to 12 % as of 1 October 2009. For the years 2007–2010, the 8 % rate also applies to labour-intensive services (hairdressing, small repair services).

Finland has excise duties rates on beer, wine, petrol and tobacco which are among the highest in the EU. The excise duty on alcohol was reduced by 33 % in 2004 in an attempt to prevent further tax base erosion following the cessation of import restrictions formerly applicable to trade with the new EU Member States, but was increased again by 11.5 %, on average, in 2008.

Wealth and transaction taxes

Municipalities levy a real estate tax on land and buildings at rates that usually vary between 0.5 % and 1 % (0.22 and 0.5 for permanent residents). The rates are lower for residential buildings, and higher for other buildings, power plants and vacant building sites. The state levies a property transfer tax on the purchases of real estate or shares; purchases of the first owner-occupied dwelling are exempt. Inheritance and gift tax is levied by the state at rates ranging between 7 % and 32 % for inheritance tax and 10 % and 32 % for gift tax. Inheritance tax rates were cut by three percentage points in the first tax class (close relatives) in 2009. The threshold for taxable income was increased to € 20 000 in 2008. The wealth tax was abolished in 2006.

Social contributions

Social security contributions are paid both by employers and employees. The health insurance contribution for medical care is also paid by pensioners. In 2009 the rate is 1.28 % on employment income and 1.45 % on other income (pension and other benefits). Employees also pay an unemployment insurance contribution (0.20 % of gross income) and pension insurance contribution (5.4 % out of gross income for those above 53 years, 4.3 % for others), and a health insurance contribution for daily allowance (0.7 % of gross income for wage-earners and 0.79 for the self-employed). These contributions are deductible from income taxes.

France	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking 1)*	*€ bn*
Indirect taxes	15.8	15.4	15.4	15.3	15.5	15.6	15.5	15.3	*7*	*289.7*
VAT	7.3	7.2	7.1	7.1	7.2	7.3	7.2	7.2	*19*	*135.7*
Excise duties and consumption taxes	2.6	2.5	2.6	2.5	2.3	2.2	2.3	2.0	*27*	*37.9*
Other taxes on products (incl. import duties)	1.7	1.6	1.7	1.7	1.9	1.9	1.8	1.9	*12*	*35.8*
Other taxes on production	4.2	4.1	4.1	4.1	4.2	4.3	4.2	4.2	*2*	*80.4*
Direct taxes	12.5	12.6	11.8	11.4	11.6	11.8	12.2	11.9	*14*	*225.7*
Personal income	8.4	8.2	7.9	7.9	7.9	8.0	7.9	7.5	*10*	*141.7*
Corporate income	2.8	3.1	2.5	2.1	2.3	2.3	2.8	3.0	*18*	*56.2*
Other	1.3	1.4	1.3	1.3	1.4	1.4	1.4	1.5	*3*	*27.8*
Social contributions	16.1	16.1	16.2	16.4	16.2	16.3	16.4	16.3	*2*	*307.6*
Employers´	11.1	11.0	11.0	11.1	11.0	11.0	11.1	11.0	*1*	*208.7*
Employees´	4.0	4.0	4.0	4.1	4.0	4.1	4.1	4.0	*9*	*76.3*
Self- and non-employed	1.0	1.1	1.1	1.1	1.2	1.2	1.2	1.2	*11*	*22.6*
B. Structure by level of government								% of GDP		
Central government	18.6	18.1	17.5	17.1	18.2	17.6	16.8	16.2	*20*	*305.6*
State government 2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	4.3	4.1	4.1	4.2	4.5	4.8	4.8	4.9	*8*	*93.2*
Social security funds	21.0	21.3	21.2	21.4	20.4	21.1	22.2	22.2	*1*	*419.3*
EU institutions	0.6	0.6	0.5	0.3	0.2	0.3	0.3	0.3	*22*	*4.9*
C. Structure by economic function								% of GDP		
Consumption	11.6	11.3	11.3	11.1	11.2	11.2	11.2	10.9	*21*	*206.7*
Labour	23.0	22.9	22.8	22.9	22.8	23.1	22.9	22.4	*5*	*424.3*
Employed	22.3	22.2	22.1	22.2	22.1	22.3	22.2	21.8	*2*	*412.3*
Paid by employers	12.1	12.1	12.1	12.2	12.1	12.2	12.3	12.2	*2*	*231.2*
Paid by employees	10.1	10.1	10.0	10.0	10.0	10.1	9.9	9.6	*11*	*181.1*
Non-employed	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	*17*	*11.9*
Capital	9.8	10.0	9.3	9.0	9.3	9.4	10.0	10.1	*7*	*192.1*
Capital and business income	5.3	5.5	4.9	4.6	4.7	4.8	5.4	5.5	*17*	*103.6*
Income of corporations	2.8	3.1	2.5	2.1	2.3	2.3	2.8	3.0	*20*	*57.1*
Income of households	0.9	0.8	0.8	0.8	0.8	0.8	1.0	1.0	*11*	*18.9*
Income of self-employed (incl. SSC)	1.7	1.7	1.6	1.6	1.6	1.6	1.5	1.5	*13*	*27.5*
Stocks of capital / wealth	4.5	4.5	4.4	4.4	4.6	4.7	4.6	4.7	*1*	*88.5*
Less: amounts assessed but unlikely to be collected	0.3	0.3	0.2	0.1	0.2	0.1	0.2	0.2		
TOTAL	**44.1**	**43.8**	**43.1**	**42.9**	**43.2**	**43.6**	**43.9**	**43.3**	***4***	***818.9***
								% of GDP		
Of which environmental taxes	2.4	2.3	2.5	2.5	2.4	2.3	2.3	2.1	*21*	*40.0*
Energy	1.8	1.7	1.8	1.7	1.7	1.6	1.6	1.4	*23*	*27.4*
Of which transport fuel taxes	-	-	-	1.5	1.5	1.4	1.3	1.3	*18*	
Transport	0.5	0.5	0.7	0.7	0.6	0.6	0.6	0.6	*12*	*11.4*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*14*	*1.2*
D. Implicit tax rates								%		
Consumption	20.9	20.3	20.3	20.0	20.1	20.1	19.9	19.5	*21*	
Labour employed	42.1	41.7	41.2	41.5	41.4	41.9	41.9	41.3	*6*	
Capital	38.1	38.7	37.4	36.5	37.9	39.2	40.8	40.7		
Capital and business income	20.6	21.4	19.8	18.7	19.3	19.8	21.9	22.0		
Corporations	29.6	32.9	29.0	24.4	26.4	26.1	31.4	33.2		
Households	13.2	12.8	12.6	13.0	12.4	13.0	13.3	12.6		
Real GDP growth (annual rate)	3.9	1.9	1.0	1.1	2.5	1.9	2.2	2.2		
Output gap (potential)	2.0	1.6	0.6	-0.2	0.4	0.4	0.8	1.0		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

FRANCE

Overall trends in taxation

Structure and development of tax revenues

In 2007, with a tax-to-GDP ratio of 43.3 %, France ranked fourth in the Union, behind Denmark, Sweden and Belgium (EU-27 37.5 %).

The share of indirect taxes in percentage of GDP was 1.0 % above the EU-27 average, while the share of direct taxes[1)] was 0.5 percentage points below average. Social contributions represented the second highest share relative to GDP in the EU, after the Czech Republic. Employers' contributions make up over two thirds of social contributions; in % of GDP employers' contributions were 67 % higher than the EU-27 average.

The central government raised 37.3 % of total taxes, the lowest share of any non-federal Member State. The local governments' share of tax revenue (11.4 %) is slightly above the EU average (11.1 %) and well above the euro area average (7.9 %). It consists mainly of the local business tax, patent levies, real estate and housing taxes.

Starting from 44.1 % in 2000, the overall tax burden declined continuously between 2000 and 2003 (by 1.2 percentage points), notably owing to a drop in revenues from corporate taxes, probably linked to the cyclical slowdown and to reductions in corporate income tax rates. After 2003, the ratio gradually increased to reach a level of 43.9 % in 2006, mainly due to an increase in corporate income tax revenue. In 2007, the overall tax burden declined by 0.6 percentage points mainly owing to a decrease in personal income tax revenues.

Taxation of consumption, labour and capital; environmental taxation

In 2007, the ITR on consumption was 2.7 percentage points below the EU average (22.2 %). While an important fall in the ratio is visible from 2000 to 2001 due to reductions in the VAT rates, the ITR remained remarkably stable from 2001 to 2006. In 2007, the ITR dropped by almost half a percentage point.

The ITR on labour income, 41.3 % in 2007, is very high compared to the EU average (34.4 %). In 2007, France ranked highest in terms of employers' social security contributions in % of GDP. Under the definition of labour taxation used in this report, the increases in the CSG, the CRDS as well as the social levy of 2 %, booked in national accounts as taxes on personal income, have offset the effects of reductions in social contributions at the aggregate level.

The ITR on capital of 40.7 % is one of the highest in the EU. After a short period of decline in 2002 and 2003, the ITR picked up again rising 4.2 percentage points between 2003 and 2007. The recent increases in the ITR on capital reflect mainly an increase in revenue from taxation on corporations. The French system relies on a number of other taxes on capital, such as the real estate tax, the housing tax, the wealth tax and the local business tax. Most of them are classified as taxes on stocks of capital/wealth, which altogether represented 4.7 % of GDP, the highest value in the EU (EU-27 2.0 %).

France has a relatively low share of environmental taxes on GDP. Their level declined further in 2007 to 2.1 % compared to the EU-27 average of 2.7 %.

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1) These shares are based on the Eurostat definition, which is based on the ESA95 codes (see Annex B for details). The French national definition differs in some important respects.

Current topics and prospects; policy orientation

The current tax policy aims at enhancing competitiveness, mainly by introducing changes in capital taxation.

As of August 2008, the Economic Modernisation Act (*Loi pour la Modernisation de l'Economie —LME*) introduces a new tax regime for micro enterprises, allowing the taxpayer to opt for a monthly or a quarterly withholding tax applied at a rate of 13 % for income from the sale of goods and at a rate of 23 % for income from services. In addition, small closely held capital companies can now opt for taxation under the personal income tax regime. The transfer of shares of SAs and SARLs is subject to a lower registration duty of 3 % (instead of 5 %). The law also contains important tax exemptions for inward expatriates and foreign-source dividends, interests and royalties.

The Finance Amendment Law 2008 contains a temporary reduction in the local business tax: all investments on equipments and property made from 23 0ctober 2008 to 31 December 2009 are exempted.

For corporate income tax, as of January 2009, the Finance Law 2009 provides for the progressive abolishment of the annual minimum lump sum tax (IFA) and the extension of the exceptional windfall tax on oil companies as. As to capital income taxes, the tax brackets for the net wealth tax are indexed and increased by 2.9 %. The same applies to the brackets, thresholds and deductions in the gift and inheritance tax regime. Under certain conditions, capital gains derived from the occasional sale of shares by a private individual are tax exempt. In response to the crisis, firms can benefit from treasury measures; tax credit reimbursements (research tax credit and carry-back tax credits) and VAT reimbursements are anticipated.

As of January 2009, the personal income tax rates remain unchanged, but the corresponding income brackets, deductions and thresholds are indexed and increased by 2.9 %. The additional tax reduction (*décote*) is fixed at € 862. In response to the crisis, a PIT reduction for low income households was introduced resulting in a cut of the PIT of 2/3 for these households in 2009.

As concerns environmental taxation, the Finance Amendment Law 2008 introduces a penalty of € 160, which applies to vehicles emitting more than 250 g CO_2 per kilometre as of 1 January 2009. In addition, the Finance Law 2009 provides the extension of the general tax on polluting activities (TGAP) to the installations for incineration of household waste.

In February 2009, the government announced a reform of the local business tax regime from 2010 onward. The plan foresees that the tax will no longer be based on the annual value of commercial and industrial equipment, but will be calculated only on the annual rental value of immovable property. The aim of the reform is to enhance the competitiveness of French companies by reducing the tax burden on investment. Finally, as from 1 July 2009 the 5.5 % reduced VAT rate has been extended to restaurant services.

Main features of the tax system

Personal income tax

The PIT (IR) is levied annually on worldwide income according to a single progressive scale. For 2008 the top marginal rate is 40 % (applicable above € 69 505). The system takes into account the specific situation of each household by applying a family quotient. A noteworthy feature is the high number of thresholds and exemptions applied. Investment income, such as bank and bond interest, and qualifying capital gains from the sale of monetary investments are taxed at a flat rate of 16 %. There is no pay as you earn (PAYE) system in France; all individuals are responsible for paying their tax due along with their annual income tax return.

Since 1999, one of the main objectives of fiscal policy has been to reduce taxes on labour income. As part of a multi-annual tax reduction plan (2001–2003), the main tax-cutting measures for labour consisted of reducing statutory PIT rates, social contributions, the creation of a reimbursable tax credit (*prime pour l'emploi*), and the reform of a local business tax (*taxe professionnelle*) with a gradual phasing out of the wages component from the tax base.

As of 2005, the *avoir fiscal* imputation system was replaced by a mitigated classical system for resident individuals under which dividends are subject to income tax at ordinary rates, but only for 60 % of their amount. The equalisation tax (*précompte mobilier*) due on the distribution of dividends was also abolished.

In 2006, the income tax scale was overhauled through the reduction in the number of brackets, and a simplification and lowering of the rates. The earned income tax credit (*prime pour l'emploi*) was increased by 50 %. The total amount of taxes paid by individuals, including income, wealth and local taxes, was capped at 50 % of their income.

Corporate taxation

The corporate tax (*impôt sur les sociétés*) affects all profits realised in France by companies and other legal entities. The standard rate is 33.33 %. SMEs are taxed at a reduced rate of 15 % on the first € 38 120 of the profits. Large companies (turnover over € 7 630 000 and taxable profit over € 2 289 000) are subject to an additional surcharge of 3.3 % (CSB) levied on the part of aggregate corporate tax which exceeds € 763 000. Hence, the effective tax rate is 34.43 %. France imposes a local business tax (*taxe professionnelle*) payable by the self-employed and companies. The actual tax, which raises around 40 % of total corporation tax, varies with location and is calculated in reference to the value of the business' fixed assets and value added.

In the late 1990s, earlier increases in the corporate tax rates were reversed with the gradual phasing out of the 15 % surtax on corporate profits introduced in 1997. Furthermore, the 10 % surtax introduced in 1995 was lifted in several stages from 2001 onwards. Part of these cuts were funded by broadening the tax base by reducing depreciation allowances and modifying the system for correcting double taxation of distributed intra-company dividends. The full and partial tax exemptions granted to new companies created between 1995 and 2004 and situated in some specific places was extended until 2009. In 2005, the corporate tax rate was cut and from 2007 the local business tax is simplified and reduced by capping the tax to 3.5 % of value added and by reinforcing the local business tax reduction on new investments.

VAT and excise duties

The standard VAT rate is 19.6 %. A reduced rate of 5.5 % applies to essential goods, certain periodicals and restaurant services. A reduced rate of 2.1 % applies to newspapers, theatre performances and approved medicines.

Wealth and transaction taxes

A net wealth tax (ISF) is levied on resident individuals on the value of assets owned, minus liabilities, if the net value of these assets exceeds € 750 000. Business assets, qualified shareholdings, certain life insurance policies, and various other assets are excluded from this tax. A 75 % exemption applies to certain nominative shares held by employees, managers or shareholders and a 75 % deduction from income tax applies to capital investment in SMEs.

Social contributions

The French social security system is mainly financed by contributions and taxes deducted from earnings. Employers' social security contributions are particularly high and range between 35 % and 45 %, while employee's social security contributions are around 14 %. In general, personal income is also subject to the general social welfare contribution (CSG) and the welfare debt repayment levy (CRDS). In both cases, the base is somewhat narrower than the gross wage income. The standard CSG rate is 7.5 %, while the CRDS rate is 0.5 %.

Germany	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	12.5	12.2	12.1	12.2	12.0	12.1	12.4	12.9	*18*	*313.3*
VAT	6.8	6.6	6.4	6.3	6.2	6.2	6.3	7.0	*21*	*170.1*
Excise duties and consumption taxes	2.8	2.9	3.0	3.2	3.0	2.9	2.8	2.6	*19*	*63.8*
Other taxes on products (incl. import duties)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	*18*	*24.0*
Other taxes on production	2.0	1.8	1.8	1.8	1.9	2.1	2.3	2.3	*6*	*55.4*
Direct taxes	12.5	11.0	10.7	10.6	10.2	10.3	10.9	11.4	*15*	*275.0*
Personal income	10.2	9.9	9.6	9.3	8.7	8.6	8.9	9.2	*8*	*223.9*
Corporate income	1.7	0.6	0.6	0.7	0.9	1.1	1.4	1.4	*27*	*33.1*
Other	0.6	0.6	0.5	0.5	0.6	0.6	0.7	0.7	*14*	*18.1*
Social contributions	16.9	16.7	16.7	16.9	16.5	16.3	15.9	15.2	*3*	*368.5*
Employers´	7.5	7.4	7.3	7.4	7.2	7.0	6.8	6.6	*13*	*159.0*
Employees´	6.8	6.7	6.6	6.7	6.5	6.4	6.3	6.1	*3*	*148.7*
Self- and non-employed	2.7	2.6	2.8	2.8	2.8	2.9	2.8	2.5	*3*	*60.8*
B. Structure by level of government								% of GDP		
Central government	11.9	11.3	11.3	11.4	10.9	11.1	11.3	11.8	*26*	*287.0*
State government [2]	9.5	8.8	8.5	8.5	8.3	8.2	8.6	8.9	*2*	*216.5*
Local government	2.9	2.7	2.6	2.6	2.8	2.9	3.1	3.2	*15*	*77.0*
Social security funds	16.9	16.7	16.7	16.9	16.5	16.3	15.9	15.2	*3*	*368.5*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*15*	*7.8*
C. Structure by economic function								% of GDP		
Consumption	10.5	10.5	10.4	10.5	10.2	10.1	10.1	10.7	*24*	*258.3*
Labour	24.4	24.1	24.0	23.9	22.9	22.4	22.0	21.6	*7*	*522.6*
Employed	21.8	21.5	21.3	21.2	20.2	19.5	19.3	19.0	*7*	*461.5*
Paid by employers	7.5	7.4	7.3	7.4	7.2	7.0	6.8	6.6	*13*	*159.0*
Paid by employees	14.3	14.1	14.0	13.8	13.0	12.6	12.5	12.5	*3*	*302.5*
Non-employed	2.6	2.6	2.7	2.8	2.8	2.9	2.7	2.5	*5*	*61.1*
Capital	6.9	5.4	5.2	5.3	5.6	6.2	7.0	7.3	*16*	*175.9*
Capital and business income	5.8	4.3	4.1	4.2	4.6	5.1	6.0	6.2	*13*	*149.3*
Income of corporations	3.0	1.7	1.7	1.9	2.2	2.5	3.0	3.0	*19*	*73.2*
Income of households	0.4	0.3	0.3	0.4	0.4	0.4	0.5	0.6	*16*	*15.3*
Income of self-employed (incl. SSC)	2.5	2.3	2.1	1.9	1.9	2.1	2.4	2.5	*5*	*60.8*
Stocks of capital / wealth	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.1	*19*	*26.6*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**41.9**	**40.0**	**39.5**	**39.6**	**38.7**	**38.8**	**39.2**	**39.5**	***10***	***956.8***
								% of GDP		
Of which environmental taxes	2.4	2.5	2.5	2.7	2.5	2.5	2.4	2.2	*20*	*54.2*
Energy	2.0	2.1	2.2	2.3	2.2	2.1	2.0	1.9	*12*	*45.3*
Of which transport fuel taxes	-	-	-	1.8	1.7	1.6	1.5	1.4	*14*	
Transport	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	*18*	*8.9*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*24*	*0.0*
D. Implicit tax rates								%		
Consumption	18.9	18.5	18.5	18.6	18.2	18.1	18.3	19.8	*19*	
Labour employed	40.7	40.5	40.4	40.4	39.2	38.8	39.0	39.0	*9*	
Capital	28.9	22.5	20.9	20.9	21.1	22.1	23.9	24.4		
Capital and business income	24.3	17.9	16.7	16.7	17.1	18.2	20.2	20.7		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	3.2	1.2	0.0	-0.2	1.2	0.8	3.0	2.5		
Output gap (potential)	1.2	1.0	-0.2	-1.5	-1.4	-1.5	0.2	1.3		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

GERMANY

Overall trends in taxation

Structure and development of tax revenues

In 2007, Germany's total tax-to-GDP ratio (including social security contributions) was 39.5 %, above both the EU-27 and the euro area averages (EU-27 37.5 %, EA-16 38.2 %). Compared to its neighbouring countries the overall tax ratio is higher than in Poland, Luxembourg and the Czech Republic, but lower than in Denmark, Belgium, France and Austria. The Netherlands has about the same level of taxation.

Germany stands out for a very high share of social contributions in total receipts (38.5 %, EU-27 29.5 %), while the shares of direct taxes (28.7 %) and especially indirect taxes (32.7 %) are far below the EU averages. This feature is unchanged, although in 2007 a shift away from SSC to direct and in particular indirect taxes could be observed. This change is mainly due to that year's increase in the VAT rate and simultaneous cut in the unemployment insurance rate. In Germany, SSC exceed the EU average by 4.2 % of GDP: this is mainly due to employees' contributions, which are the third highest in the EU, whereas employers' contributions are in line with the average.

Compared with the other federal countries, state governments in Germany receive a proportion of total tax revenue (22.6 %) which is in line with Spain (21.6 %) and Belgium (24.4 %), but much higher than in Austria (7.3 %). The German *Länder* receive a substantial share of revenue from VAT, the wage withholding tax, the PIT collected by assessment, the CIT and the withholding tax on interest. The *Länder* are also entitled to all revenue from other taxes such as inheritance and gift taxes, taxes on property transfer and taxes on motor vehicles. Social security institutions receive the fourth largest share of revenues in the EU (38.5 %) exceeded as a proportion only by France (51.2 %), Slovakia (39.3 %) and Belgium (38.6 %). The end result is that, at 30.0 %, the federal government receives the smallest portion of tax receipts of any EU central government (EU-27 59.4 %).

Following Germany's reunification, the tax-to-GDP ratio rose significantly in the early 1990s, with most of the increase coming in the form of higher social contributions. The increase continued in the 1995–2000 period as a result of growing revenues from personal and corporate income taxes. In 2000, the tax-to-GDP ratio stood at 41.9 %. The year 2001 marked a turning point: staggered reductions in PIT and CIT under the 'Tax Reform 2000' led to a drop in revenue by more than three percentage points up to 2005. The ratio increased again in 2006 and 2007, however, mainly due to higher PIT and CIT revenue on the back of strong economic growth and as a consequence of the increase in the standard VAT rate.

Taxation of consumption, labour and capital; environmental taxation

Consumption taxes as a percentage of GDP are among the lowest in the European Union (10.7 %, EU-27 12.4 %), as reflected in the low ITR on consumption (19.8 %, EU-27 22.2 %). After having remained roughly stable since 1995, revenue from consumption taxes increased by more than 1.5 percentage point in 2007 owing to the VAT hike.

The tax on labour as a percentage of GDP (21.6 %, EU-27 17.2 %) is relatively high, ranking seventh in the Union. Social contributions account for around two thirds of the taxes on employed labour, driving the implicit tax rate on labour to 39.0 %, well above the European average (EU-27 34.4 %). Starting from a peak at 40.7 % in 2000, the ITR continuously decreased until 2005 as a consequence of income tax reform, and then stabilised in 2006 and 2007.

Despite a strong increase in recent years, Germany still derives lower than average revenues from taxation of capital (7.3 % of GDP, EU-27 8.0 %), partly due to a low level of taxes on stocks of capital/wealth (1.1 %, EU-27 2.0 %). Moreover, as a result of the fact that in Germany a very low share of businesses is incorporated, a low overall level of taxes on corporations is observed (3.0 %, EU-27 3.7 %). On the other hand relatively high revenues are raised by the tax on the income of the self-employed (2.5 %, EU-27 1.5 %). These factors are likewise reflected in the rather low implicit tax rate on capital (24.4 %). The level of taxes on corporations (including the trade tax) has undergone substantial changes due to the reforms in the last years (see last year's report for more information.

Environmental taxes were strongly increased in the 1999–2003 period as a consequence of the ecological tax reform (from a pre reform level of 2.1 % of GDP to 2.7 % in 2003). In the following years, however, they declined again to 2.2 % of GDP (in 2007) and now again lie clearly below the EU-27 average (2.7 %).

Current topics and prospects; policy orientation

In December 2008, the German government decided on a reform of the inheritance tax, which came into force on 1 January 2009. Most notably, it includes a revaluation of the different kinds of property, an increase in the allowances for partners, children and grandchildren, changes in the treatment of siblings, nieces and nephews, and tax-privileged business ownership transfers, insofar as employment levels are safeguarded in the following years (see below for details).

In 2009 a final withholding tax of 25 % (plus solidarity surcharge) on capital income of private households was introduced, with an option on the assessment of private investment income and capital gains. At the same time, the 'half-income system' (see last year's report) and the tax-exemption of private capital gains, e.g. from shares held beyond the one-year holding period, were abolished.

Other tax changes have been introduced via the economic stimulus packages I and II (*Konjunkturpaket I und II*). The first package foresees the introduction of declining-balance depreciation at a rate of 25 % for movable fixed assets acquired or produced after 1 January 2009 and before 31 December 2010 as well as increased thresholds for accelerated depreciation of movable fixed assets. Other incentives are a credit for services supplied by self-employed persons for household repairs which was increased to 20 % of € 6 000 (i.e. maximum € 1 200). The second stimulus package targets especially the PIT (see below). The entitlement to the revenue of taxes on motor vehicles will change to the federal government as to 1 July 2009. The assessment of the taxes on motor vehicles will successively be linked to the emission of carbon dioxide. Also, the rate for the contributions to the compulsory health insurance will be decreased by 0.6 percentage points with effect from 1 July 2009; contribution rate for the unemployment insurance has been reduced to 2.8 % from 1 January 2009.

Main features of the tax system

Personal income tax

The economic stimulus package reduced the bottom PIT rate from 15 % to 14 % while the basic allowance was increased from € 7 664 to € 7 834 retroactively as from 1 January 2009 and to € 8 004 as from 1 January 2010. PIT rates increase in two-linear progressive zones from the new basic rate of 14 % to 42 % (applicable above € 52 552 respectively € 52 882 as from 1 January 2010). Since 2007, a top rate of 45 % applies to incomes above € 250 000. This value has been increased to € 250 400 as from 1 January 2009 and € 250 730 as from 1 January 2010. A 5.5 % solidarity surcharge is levied on top of the PIT rates. Spouses living together are in general jointly assessed, their combined personal allowance thus being € 15 668 in 2009. Husband and wife each pay income tax on half the total of their combined incomes. On 1 January 2009 a final 25 % withholding tax (plus solidarity surcharge) on private households' capital income came into force, with an option on the assessment of private investment income and capital gains. A € 801 allowance (€ 1 602 for married couples) per year applies to investment income.

Another major recent reform was the introduction of a deferred taxation system exempting all retirement savings and the accruing interest tax exempt, while the resulting old-age income is taxed as ordinary income. The new tax treatment is being phased in over the years 2005 to 2040, with the share of retirement income subject to tax steadily rising, as an increasing proportion of the savings becomes deductible for PIT purposes.

Corporate taxation

The corporation tax system has been reformed several times in recent years. In particular, the CIT rates have been reduced from pre-1999 rates of 45 % (rate on non-distributed profits) and 30 % (rate on distributed profits) to a common 15 % rate. In order to finance the tax cuts, base-broadening measures were introduced. Among others, the depreciation on machinery and buildings was reduced. Moreover, the local tax on trade and industry (see below) is not deductible from the CIT base and its own base any more. Finally, as of January 2008 two measures to secure the CIT base are in place: a so-called interest barrier rule (*Zinsschranke*), which introduces a profit-based limit on the deduction of interest expenses if net interest expenses exceed € 1 million, and a modified tax base rule, which adds parts of the interest expenses and portions of rents, leasing and licence fees to the tax base.

A further important tax on business is the trade tax. The trade tax, like the real property tax, belongs to the category of non-personal taxes. To the extent that it is conducted within the territory of the Federal Republic, any going business enterprise (with exceptions such as the operation of agricultural or forestry establishments or the provision of professional or other independent personal services) is liable to trade tax. The computation of trade tax proceeds from the basic tax. This is obtained by multiplying the amount of business profits by a fixed percentage of 3.5 % (the basic federal rate). Individuals and partnerships qualify for an allowance of € 24 500. The municipalities apply to the uniform basic tax (or in the case of allocation, to their allocated share) a multiplier (minimum 200 %) which they are entitled to determine.

As of January 2008 the CIT rate stands at 15 %, increased to 15.83 % by the 5.5 % solidarity surcharge. Together with the local trade tax (calculated with an average multiplier of 400 %) the overall tax rate is about 30 %. Two further aspects of the reform are the new preferential treatment of retained earnings in sole proprietorships and partnerships (non-incorporated businesses) and the introduction of a final withholding tax of 25 % that will apply to interest payments, dividends and most forms of capital gains.

VAT and excise duties

The standard VAT rate was raised from 16 % to 19 % as of 1 January 2007. The use of the 7 % reduced VAT rate (e.g. for staple food, public transport and books) and of exemptions (e.g. for rents, doctors' services) is rather limited compared to other Member States.

Wealth and transaction taxes

Property tax is levied annually by all municipalities on the assessed tax value of land and buildings located in their region. The real estate transfer tax basically stands at 3.5 %, but as of 1 January 2007 the German *Länder* can set the rate themselves. Inheritance and gift taxes have been reformed in 2008. They are levied at rates ranging from 7 % to 50 % depending on the amount involved if it exceeds certain allowances. Inheritance of self-occupied housing is tax free within certain limits. The same holds for company successions where the taxation depends on how long the company is held by the heirs and how the payroll of the company changes.

Social contributions

Social security contributions to old-age insurance (19.9 % in 2009), unemployment insurance (2.8 %) nursing care insurance (1.7 %) and health insurance (14.6 %; 14.0 % as of 1 July 2009) are in general paid half by employers and half by employees up to a contribution assessment ceiling. However, employees pay a 0.9 % additional income linked contribution to health insurance and employees without children an additional 0.25 % for nursing care insurance.

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	14.2	13.8	13.3	12.5	11.9	11.8	12.3	12.3	*23*	*28.1*
VAT	7.2	7.5	7.6	7.0	6.8	6.8	7.1	7.2	*18*	*16.5*
Excise duties and consumption taxes	3.1	3.1	2.9	2.8	2.6	2.6	2.4	2.5	*21*	*5.7*
Other taxes on products (incl. import duties)	3.3	2.7	2.4	2.3	2.2	2.2	2.4	2.3	*9*	*5.2*
Other taxes on production	0.6	0.5	0.3	0.3	0.3	0.3	0.3	0.3	*26*	*0.7*
Direct taxes	10.0	8.8	8.8	8.0	8.1	8.6	8.0	8.1	*23*	*18.5*
Personal income	5.0	4.5	4.5	4.4	4.4	4.6	4.6	4.7	*23*	*10.7*
Corporate income	4.1	3.4	3.4	2.9	3.0	3.2	2.7	2.6	*25*	*5.9*
Other	0.8	1.0	0.9	0.7	0.7	0.8	0.8	0.8	*11*	*1.9*
Social contributions	10.5	10.6	11.6	11.8	11.1	11.1	11.0	11.7	*16*	*26.6*
Employers´	4.9	4.9	5.5	5.4	5.1	5.0	5.0	5.4	*17*	*12.3*
Employees´	4.1	4.2	4.5	4.7	4.4	4.4	4.4	4.5	*7*	*10.3*
Self- and non-employed	1.5	1.5	1.6	1.7	1.6	1.7	1.6	1.8	*7*	*4.0*
B. Structure by level of government								% of GDP		
Central government	23.4	21.9	21.5	20.0	19.7	20.1	19.9	20.1	*18*	*45.8*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	*26*	*0.5*
Social security funds	10.4	10.5	11.5	11.6	10.9	10.9	10.9	11.5	*13*	*26.2*
EU institutions	0.6	0.6	0.4	0.3	0.3	0.3	0.3	0.3	*21*	*0.6*
C. Structure by economic function								% of GDP		
Consumption	12.4	12.7	12.4	11.5	11.2	11.0	11.4	11.4	*17*	*26.0*
Labour	12.4	12.2	13.1	13.1	12.6	12.8	12.8	13.4	*21*	*30.6*
Employed	11.5	11.3	12.2	12.3	11.7	11.8	11.7	12.3	*21*	*28.0*
Paid by employers	4.9	4.9	5.5	5.4	5.1	5.0	5.0	5.4	*20*	*12.3*
Paid by employees	6.6	6.4	6.7	6.8	6.6	6.8	6.7	6.9	*19*	*15.7*
Non-employed	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.1	*11*	*2.6*
Capital	9.8	8.4	8.2	7.6	7.4	7.7	7.1	7.2	*17*	*16.5*
Capital and business income	7.4	6.4	6.6	6.1	6.0	6.3	5.7	5.7	*16*	*13.1*
Income of corporations	4.1	3.4	3.4	2.9	3.0	3.2	2.7	2.6	*26*	*5.9*
Income of households	0.8	0.7	0.7	0.7	0.6	0.7	0.7	0.8	*14*	*1.7*
Income of self-employed (incl. SSC)	2.5	2.3	2.5	2.5	2.4	2.4	2.3	2.4	*7*	*5.5*
Stocks of capital / wealth	2.4	2.0	1.6	1.5	1.3	1.4	1.5	1.5	*14*	*3.5*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**34.6**	**33.2**	**33.7**	**32.3**	**31.2**	**31.5**	**31.3**	**32.1**	***22***	***73.2***
								% of GDP		
Of which environmental taxes	2.3	2.5	2.3	2.2	2.1	2.1	2.0	2.0	*25*	*4.6*
Energy	1.6	1.5	1.4	1.3	1.3	1.2	1.2	1.2	*26*	*2.7*
Of which transport fuel taxes	-	-	-	1.2	1.2	1.1	1.1	1.1	*25*	
Transport	0.8	1.0	0.9	0.8	0.9	0.8	0.8	0.8	*8*	*1.9*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*24*	*0.0*
D. Implicit tax rates								%		
Consumption	16.5	16.7	16.1	15.5	15.3	14.8	15.2	15.4	*27*	
Labour employed	34.5	34.6	34.4	35.6	33.7	34.2	35.1	35.5	*12*	
Capital	19.9	17.7	17.7	16.4	16.0	16.8	15.9	-		
Capital and business income	15.1	13.6	14.1	13.1	13.1	13.7	12.6	-		
Corporations	29.0	25.1	26.0	21.0	20.1	21.6	18.6	-		
Households	8.9	8.7	9.4	9.6	9.7	9.7	9.5	-		
Real GDP growth (annual rate)	4.5	4.2	3.4	5.6	4.9	2.9	4.5	4.0		
Output gap (potential)	-0.8	-0.3	-0.7	0.6	1.7	0.8	1.4	1.8		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

GREECE

Overall trends in taxation

Structure and development of tax revenues

As of 2007, the tax-to-GDP ratio (including social security contributions) stood at 32.1 % in Greece, a value markedly below the EU-27 average (37.5 %). This is the lowest tax-to-GDP ratio among the countries of the euro area (6.1 percentage points below the EA-16 average).

Indirect taxes are lower than the EU-27 average (12.3 % of GDP vs. 14.3 % of GDP) but play a more important role in Greece than either direct taxes or social contributions. Revenue from direct taxes is only about two thirds of the EU-27 average (8.1 % of GDP as compared with 12.4 % of GDP). Revenues from personal income taxes in particular account for a mere 4.7 % of GDP, compared with an EU-27 average of 8.0 % of GDP. Looking at the tax mix, the Greek tax system shows a structure similar to that of Cyprus, with a relatively low total tax ratio, low direct and, in particular, personal income taxes, and a high share of indirect taxes in the total.

The vast majority of revenues, almost two thirds of the total, flow to the central government while social security funds receive almost all of the remainder. Local government levies only a limited share of overall taxation (note however that the value of 0.2 % of GDP does not include all local taxes). This structure has not shown marked changes since 1995, with the exception of a decline in the share of the taxes destined for the EU institutions.

The overall tax burden increased rapidly from 1995 to 2000, when it reached a peak of 34.6 % of GDP, reflecting the effort to combat tax evasion and to reduce the government deficit in the run-up to the euro. The strongest relative increases in that period were recorded for corporate income and personal income taxes. From 2002 to 2004, the tax burden dropped by 2.5 % of GDP with declines being recorded mostly for indirect taxes, corporate tax and employer's social security contributions. The ratio remained stable in the period of 2004 to 2006. The total tax burden increased by 0.8 percentage points in 2007, mostly due to the rise in revenues from social security contributions.

Taxation of consumption, labour and capital; environmental taxation

As of 2007, the implicit tax rate on consumption in Greece was significantly below the EU-27 average (15.4 % compared with 22.2 %). This is due to a broad application of reduced VAT rates as compared to the standard VAT rate and a moderate level of excise duties. The Greek ITR on consumption has declined steadily from its 16.7 % peak in 2001 to 14.8 % in 2005, than rose again in the following years by a total of 0.6 percentage points.

The implicit tax rate on labour is, at 35.5 %, 1.1 percentage points above the EU-27 average. Given low direct taxes, this high rate is due, in particular, to social security contributions. In the period under consideration, the ITR on labour grew from a below average 34.5 % in 2000 to 35.6 % in 2003. It dropped markedly by 1.9 percentage points in 2004, inter alia due to the lagged effects of the tax measures already introduced in 2001, and has increased gradually since then.

Data on the ITR on capital are only available until 2006. Greece displayed a low rate of capital taxation in the previous years; with the ITR on capital at 15.9 % in 2006. As in many Member States the ITR had decreased substantially in the years 2000–2004 but then it picked up by 0.8 % in 2005 and dropped again by 0.9 % in 2006 remaining well below the EU-25 average of 25.7 %. Note also that a low ITR on capital may be linked to the structure of employment, characterised by a relatively high share of self-employed (whose income is treated as capital income in our methodology).

The role of environmental taxation has been decreasing over recent years in Greece: they have declined steadily by a cumulative 0.5 % since 2001. This decline was driven by shrinking revenues from energy taxation. As of 2007, the ratio of environmental taxation stood at 2.0 % of GDP, a value among the lowest in the EU (the EU-27 average is 2.7 %).

Current topics and prospects; policy orientation

In 2004, the government passed a tax reform law to foster entrepreneurship, encourage investment and innovation and provide for a more equitable distribution of the tax burden. The first phase of the reform reduced the corporate tax rate from 35 % to 25 %, increased tax-free personal income by € 1 000 and simplified the tax code.

The second stage of the tax reform was launched in 2007 and focused on lowering personal income taxes. In particular, the tax rate applied to the central tax bracket will be reduced from 27 % for income earned in 2008 to 25 % for income earned in 2009. The tax rate on income above € 75 000 will remain unchanged at 40 %.

Furthermore, the tax reform enacted in 2008 foresees a gradual reduction by 1 percentage point per year of the corporate income tax rate for the years from 2010 to 2014 (from 25 % to 20 %).

In order to mitigate the negative impact of the global financial and economic crisis, several anti-crisis measures were introduced in 2009. An extra tax on personal income for high income earners was introduced and special financial benefit was granted to low income pensioners, farmers-pensioners and long term unemployed persons. In addition, measures to strengthen the tourism were undertaken.

Main features of the tax system

Personal income tax

Greece has reduced the progressivity of the tax system over the last few years: the highest statutory personal income tax rate was cut, from 45 % to 40 % in 2001–2002. At the other end of the tax scale, Greece has reduced the taxation of low-income earners. The level of tax-exempt income was raised, while the 2001 budget also introduced an exemption from National Insurance Contributions for low-income earners. The tax relief for the elderly, the disabled, and for families with children was increased. The restructuring of the PIT over the 2006–2009 period is going in the same direction.

Individuals are subject only to a national income tax, as there are no local income taxes. Greek law defines six categories of taxable income: income from immovable property, i.e. land and buildings; income from movable property, i.e. investment income; from business; from agriculture; from employment; and from professional activities and other sources. Income from immovable property is subject to additional taxation beyond the normal progressive income tax at the rate of 1.5 %. The rate rises to 3 % where the surface area of the residence is greater than 300 m^2. The amount of additional tax may not be greater than the amount payable on the taxpayer's total net income. Pensions are subject to taxation as employment income. There is no net wealth tax.

There are no personal allowances in the Greek tax system. In 2003 previous tax deductions were transformed into tax credits. However, life insurance premiums, social security contributions and cash donations for specific purposes remain fully deductible. The main tax credits are granted for medical expenses, home rent, annual educational expenses, for conversion or installation of environmentally friendly heating systems, for the annual mortgage interest on taxpayer's principal home and for the acquisition of long-term balanced or equity mutual funds. Domestic dividends are not subject to income tax or withholding tax, while interest is taxed at source according to different schedules.

Corporate taxation

Greece has been cutting the corporate tax rate over the last few years. The statutory tax rate for non-listed companies was cut from 40 % to 37.5 % in 2001 and to 35 % in 2002, followed by a cut to 29 % in 2006. It was then further reduced to 25 % in 2007. The tax rate for partnerships and civil law associations was reduced from 24 % to 22 % in 2006, and cut to 20 % from 2007 onwards. An additional tax of 3 % is levied on gross income derived from immovable property. This additional tax cannot exceed the tax calculated on the company's income.

Companies are subject to corporate income taxes and real estate taxes, while local taxes are not significant. An important feature of the Greek tax system is the tax exemption of dividends; these are paid from after tax profits and are not taxed again at the recipients' level. There is no group taxation in Greece, i.e. all entities are taxed separately. In general, tax losses may be carried forward for five years. No tax loss carry-backs are allowed. Expenses are deductible only if they are incurred for the purpose of earning income.

Withholding taxes are treated as prepayments (i.e. they are creditable against the final income tax liability.) Government bonds and treasury bills, bonds issued by resident companies (including banks and insurance companies) and bank deposits are subject to a withholding tax at the rate of 10 %. Interest on loans and interest received from abroad are taxed with a withholding tax at the rate of 20 % if the payment is made in Greece. A 15 % withholding tax rate applies to fees paid to agents for supplies agreed with foreign entities; a 3 % rate applies to construction contractors' fees and 8 % to service fees. There is no withholding tax on domestic royalties.

VAT and excise duties

The standard VAT rate was increased by one point to 19 % on 1 April 2005. Greece also applies a 9 % reduced rate to goods such as fresh food products, pharmaceuticals, transportation and electricity, as well as to certain professional services such as those supplied by hotels, restaurants, coffee shops and (non-exempt) services by doctors and dentists; a super-reduced rate of 4.5 % applies to newspapers, periodicals, books and theatre tickets. For the region of the Dodecanese, the Cyclades and Eastern Aegean islands, the above rates are reduced to 13 %, 6 % and 3 %, respectively.

In addition to VAT, an excise duty is levied on mineral oils, gasoline, tobacco, alcohol, beer and wine.

Social contributions

Both employees and employers are obliged to pay contributions to social insurance. Employees' contributions are withheld by the employer and paid at a rate of 16 % for white-collar employees and 19.45 % for blue-collar workers. The monthly ceiling is € 2 384.96 (for 1 January through 30 September 2008) and € 2 432.25 (for the rest of 2008) per employee if the employment has started prior to 1 January 1993 and € 5 437.96 (for 1 January through 30 September 2008) and € 5 543.55 (for the rest of 2008) if employment started thereafter.

Hungary	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1)]*	*€ bn*
Indirect taxes	16.1	15.3	15.0	15.6	16.3	15.8	15.3	16.0	*5*	*16.2*
VAT	8.6	8.1	7.8	8.1	8.9	8.4	7.6	7.9	*13*	*8.0*
Excise duties and consumption taxes	3.8	3.7	3.6	3.6	3.3	3.2	3.3	3.3	*10*	*3.4*
Other taxes on products (incl. import duties)	3.3	3.2	3.2	3.4	3.6	3.6	3.8	4.1	*1*	*4.1*
Other taxes on production	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	*20*	*0.7*
Direct taxes	9.6	10.1	10.2	9.5	9.1	9.1	9.4	10.2	*16*	*10.4*
Personal income	7.1	7.5	7.5	7.0	6.6	6.6	6.7	7.1	*14*	*7.2*
Corporate income	2.2	2.3	2.3	2.2	2.1	2.1	2.3	2.8	*21*	*2.8*
Other	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	*24*	*0.3*
Social contributions	12.8	12.8	12.8	12.5	12.3	12.5	12.5	13.5	*7*	*13.7*
Employers´	10.3	10.1	10.1	9.8	9.4	9.7	9.5	9.6	*4*	*9.7*
Employees´	2.0	2.1	2.2	2.2	2.3	2.3	2.4	3.3	*13*	*3.3*
Self- and non-employed	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.6	*16*	*0.7*
B. Structure by level of government								% of GDP		
Central government	22.9	22.5	22.3	21.9	21.7	21.4	21.2	22.6	*13*	*22.8*
State government[2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	3.8	4.0	4.0	4.3	4.5	4.3	4.3	4.4	*12*	*4.5*
Social security funds	11.8	11.8	11.7	11.5	11.3	11.5	11.4	12.5	*7*	*12.6*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.3	0.3	*11*	*0.3*
C. Structure by economic function								% of GDP		
Consumption	15.3	14.5	14.1	14.6	15.0	14.5	13.9	14.5	*4*	*14.7*
Labour	18.9	19.2	19.2	18.5	18.0	18.5	18.4	19.9	*9*	*20.1*
Employed	18.0	18.4	18.8	18.1	17.7	18.0	18.0	19.0	*8*	*19.2*
Paid by employers	10.5	10.3	10.2	9.9	9.6	9.9	9.7	9.9	*6*	*10.0*
Paid by employees	7.6	8.1	8.6	8.2	8.1	8.1	8.3	9.1	*12*	*9.2*
Non-employed	0.8	0.8	0.4	0.4	0.4	0.5	0.5	0.9	*14*	*0.9*
Capital	4.3	4.6	4.6	4.6	4.6	4.5	4.8	5.3	*23*	*5.4*
Capital and business income	3.4	3.6	3.6	3.4	3.2	3.2	3.5	4.1	*24*	*4.1*
Income of corporations	2.2	2.3	2.3	2.2	2.2	2.2	2.4	2.8	*21*	*2.9*
Income of households	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.7	*15*	*0.7*
Income of self-employed (incl. SSC)	0.5	0.6	0.6	0.5	0.5	0.4	0.5	0.5	*23*	*0.5*
Stocks of capital / wealth	1.0	1.0	1.0	1.2	1.3	1.3	1.3	1.3	*17*	*1.3*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**38.5**	**38.3**	**38.0**	**37.7**	**37.6**	**37.5**	**37.2**	**39.8**	***9***	***40.2***
								% of GDP		
Of which environmental taxes	2.9	2.8	2.8	2.6	2.7	2.7	2.8	2.9	*8*	*2.9*
Energy	2.4	2.3	2.2	2.3	2.1	2.1	2.1	2.1	*8*	*2.1*
Of which transport fuel taxes	-	-	-	-	1.8	1.8	1.9	1.9	*5*	
Transport	0.4	0.4	0.4	0.2	0.5	0.5	0.6	0.6	*10*	*0.6*
Pollution/resources	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	*8*	*0.1*
D. Implicit tax rates								%		
Consumption	27.5	25.6	25.4	26.0	27.6	26.4	25.8	27.1	*3*	
Labour employed	41.4	40.9	41.2	39.3	38.3	38.4	38.8	41.2	*7*	
Capital	15.9	16.9	16.4	16.7	16.8	16.6	16.3	-		
Capital and business income	12.3	13.1	12.8	12.5	11.8	11.6	11.9	-		
Corporations	23.9	24.8	19.8	17.5	17.1	17.0	14.7	-		
Households	6.2	6.7	7.3	7.6	6.8	6.6	8.0	-		
Real GDP growth (annual rate)	5.2	4.1	4.1	4.2	4.8	4.0	4.1	1.1		
Output gap (potential)	-0.7	-1.0	-1.1	-0.7	0.5	1.1	2.6	1.6		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

HUNGARY

Overall trends in taxation

Structure and development of tax revenues

As of 2007, with a total tax-to-GDP ratio of 39.8 % (including social security contributions), Hungary's tax burden is well above the EU average (37.5 %). Looking at neighbouring countries, Austria displays a higher tax ratio (42.1 %) but Slovenia has a lower ratio (38.2 %) and both Slovakia's and Romania's ratios lie well below the Hungarian value (29.4 %).

Revenues from indirect taxes are substantial, their share accounting for 40.2 % of the total. VAT revenues yield 7.9 % of GDP which roughly equals to the EU average (8 %). Other taxes on products are the highest in the EU mainly because of local business tax revenues. In contrast, direct taxes are relatively low: at 10.2 % of GDP, they are lower than the EU average by almost one quarter. Social contributions in relation to GDP are clearly above the European average; the majority of them fall on employers.

Tax revenues are divided between central government, local government and the social security system. While central government remains by far the largest recipient of tax revenue, with over half of the total, local government taxes are, at 4.4 % of GDP, not negligible. Local taxes grew rapidly until 2004 although in 2005 they dropped down slightly to the 2003 level.

The overall tax burden declined gradually between 2000 and 2006 from 38.5 % to 37.2 % then jumped to 39.8 % in 2007, reaching the ninth highest in the EU. The shares of the main categories of taxes evolved differently over the years going back finally to the 2000 shares in 2007 the main exceptions being the higher social contributions paid by employees and the higher level of the other taxes on products.

Taxation of consumption, labour and capital; environmental taxation

The high level of indirect taxation in Hungary leads to a correspondingly elevated ITR on consumption (27.1 % in 2007). This value is the third highest in the EU. The ITR on consumption shows a general decline up to 2002 in line with the reduction in indirect tax revenue. However then it bounced back thereafter in line with the changes in VAT system.

The ITR on labour amounted to 41.2 % in 2007. This value is 6.8 points above the EU average. Since 2000, the ITR on labour showed a gradual decline over time until 2004, but increased by 2.4 points in 2007, mainly due to the changes in social contribution system. The revenues from taxes on capital are, at 5.3 % of GDP, one of the lowest in the EU, due notably to low business income taxation, but have been increased by 0.5 points in 2007 reflecting the changes in tax policy. First in this year ITR on capital is available for all years except 2007. The ITR on capital remained fairly stable since 2000 and well below the EU average.

Environmental taxes represented 2.9 % of GDP. This share is somewhat above the EU average (2.7 %) and has remained roughly stable between 2000 and 2007. As in most countries, taxes on energy account for the largest part of environmental tax revenues.

Current topics and prospects; policy orientation

Labour and personal income taxes are planned to be decreased, while taxes on consumption and capital are expected to increase further after the introduction of tax on interest and capital gains derived from stock exchange activities (at a rate of 20 %) in 2006. As a first step, the Parliament approved a set of changes that will enter into force on 1 July 2009. Among them, an increase in the standard VAT rate from 20 % to 25 %, a new 18 % reduced VAT rate, an increase in the lowest PIT bracket (taxed at an 18 % rate) from HUF 1.7 million (€ 5 900) to HUF 1.9 million (€ 6 600) and a five percentage points decrease in the employers' contributions.

The solidarity tax for corporations and private persons with high income is planned to be abolished as of 2010. This structural modification will maintain the overall tax burden but converge to EU structural trends. A company car tax has been introduced in 1 February 2009: companies have to pay HUF 7 000 (€ 25) per month per car below 1 600 cm^3 and HUF 15 000 (€ 52) for cars over 1 600 cm^3.

Main features of the tax system

Personal income tax

Personal income tax is applied at central government level. In recent years, Hungary has introduced a number of reforms in personal income taxation. The three bracket system utilised since 1999 has been replaced, from 1 January 2005, with a two bracket system. As from January 2009 income up to HUF 1.9 million (€ 6 600) is taxed at an 18 % rate, whereas above that threshold the rate is 36 %. This highest rate decreased two percentage points in 2006 from the previous 38 %. However from 2007 onwards private persons with a combined annual income of more than HUF 7 446 000 (ca. € 25 800) must pay solidarity tax. The tax base is the portion of the income over HUF 7 446 000, the tax rate is 4 %.

As a main rule the maximum amount of personal income tax allowance is HUF 100 000 (€ 350) up to HUF 3.4 million annual income, between HUF 3.4 million (€ 11 800) and HUF 3.9 million (€ 13 500) annual income a reduced amount of tax allowance is applicable; and no allowances are available for those who have annual income above HUF 3.9 million (€ 13 500).

The employment tax credit is calculated as 18 % of wage income earned, with the monthly maximum of HUF 11 340 (€ 40). This tax credit is applicable to workers whose annual income does not exceed HUF 1 250 000 (€ 4340). In the case of employees having annual income between HUF 1 250 000 and HUF 2 762 000 (€ 9 600), a reduced amount of tax credit is applicable. No employment income tax credit is available over HUF 2 762 000 annual income.

A 25 % withholding tax is imposed on the dividends from resident companies paid to individuals. The 35 % rate has been abolished as of 1 January 2009. Foreign source dividends are also taxed at a 25 % rate. In order to secure a more equitable distribution of the tax burden between work and capital income, a tax on interest and a tax on capital gains from stock exchange transaction were introduced on 1 September 2006. The rate of these taxes is set at 20 %. No portion of these incomes is exempted from tax. The tax on interest is withheld by the payer, and the tax on capital gains in stock exchange deals is declared and paid by the private individuals in their tax return. Capital gains from immovable property are subject to tax at a 25 % rate.

Corporate taxation

In recent years there has been a strong tendency to reduce corporate tax rates, particularly in new Member States. In this context Hungary has an established position as a low tax country, given that it introduced a corporate tax rate of 18 % already in 1995, further reduced to 16 % as of 2004. Under certain conditions a rate of 10% is applicable to the part of the tax base which does not exceed HUF 50 million (€ 174 000).

The solidarity tax was introduced on 1 September 2006. The tax rate is 4 % on the adjusted pre-tax profit. R&D expenditure is deducted from the tax base.

The rate of the simplified corporate tax (EVA) has increased from 15 % to 25 % effective from 1 October 2006. Besides the corporate income tax, municipalities may levy a local business tax. From 2004 onwards companies are also required to pay an innovation tax, in 2007 at the rate of 0.3 %. Innovation tax is levied on the same base as that of the local business tax, but an amount equal to R&D expenditure carried out directly by the firm is deducted from the tax.

Since 2004, companies may carry the amount of trading losses forward indefinitely, but subject to limitations; carry back of losses is not allowed.

Capital gains are generally included in the company's total ordinary income. However, 50 % of capital gains on transactions on a recognised stock exchange by a company other than an insurance or financial institution are exempt, subject to limitations. Capital gains of foreign companies without a permanent establishment in Hungary are exempt from Hungarian tax. Dividends paid to Hungarian companies are generally deductible from the corporate tax base.

VAT

In 2005 and 2006 the VAT system changed significantly. For almost all goods, the standard VAT rate was cut to 20 % from 25 % from 1 January 2006, but the 15 % reduced rate has increased to 20 % from 1 September 2006. The 5 % reduced rate applies only to a few products (such as specific medicines and medical materials, books, newspapers, etc). The newly codified Act on VAT (No 127/2007) has come into force from 1 January 2007. The new act follows much more closely the structure of Council Directive 2006/112/EC and has also introduced a relevant new measure, the reverse charge scheme for waste commerce. In 2008, the sectoral reverse charge system was extended to various services linked to immovable property as well. As from July 2009 the standard VAT rate was hiked to 25 % and a new 18 % reduced VAT rate was introduced for dairy products, baked goods and district heating.

Other taxes

From 1 January 2009 to 1 January 2011 a new tax is to be levied on energy suppliers — the Special Energy Tax. The tax base is the pre-tax profit subject to certain tax base adjusting items. The rate of the Special Energy Tax is 8 %.

From 2007 banks have to pay a surtax on interest revenue from loans related to state subsidies at a 5 % rate.

Municipalities may levy a real estate tax on building and land. The maximum tax is either a fixed amount (HUF 900 per year per square metre for buildings, HUF 200 per year per square metre for land) or 3 % of the market value.

Social contributions

Social security contributions consist of pension insurance contributions and health insurance contributions. In the case of pension contributions paid by employees, a ceiling applies. Additionally, health care charges are payable.

Social security contributions include employers' social security contributions of 26 % (up to a certain threshold) and employees' social security contributions of 15.5 % (health contribution 6 % plus pension contribution 9.5 %; in the case of private pension fund members the health contribution is 6 %, the pension contribution is 1.5 % and they pay 8 % to private pension funds). The health care tax charge of 11 % is generally assessed on those items of income that are not subject to the social security contributions, but are included in the aggregate taxable base.

Ireland	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1)]*	*€ bn*
Indirect taxes	13.7	12.5	12.4	12.6	13.2	13.7	14.2	13.5	*14*	*25.7*
VAT	7.3	6.8	7.0	7.0	7.3	7.6	7.8	7.6	*16*	*14.4*
Excise duties and consumption taxes	3.2	2.9	2.9	2.8	2.7	2.6	2.4	2.4	*23*	*4.5*
Other taxes on products (incl. import duties)	2.3	2.0	1.7	1.9	2.2	2.5	3.0	2.6	*5*	*5.0*
Other taxes on production	0.8	0.8	0.8	0.9	0.9	0.9	1.0	0.9	*16*	*1.8*
Direct taxes	13.5	12.8	11.6	12.0	12.4	12.3	13.2	12.8	*12*	*24.4*
Personal income	8.6	8.1	7.1	6.8	7.4	7.3	7.2	7.3	*13*	*14.0*
Corporate income	3.7	3.5	3.7	3.7	3.6	3.4	3.8	3.4	*13*	*6.4*
Other	1.2	1.2	0.8	1.5	1.4	1.7	2.2	2.1	*2*	*4.0*
Social contributions	4.4	4.5	4.4	4.5	4.6	4.7	4.8	4.9	*26*	*9.4*
Employers´	2.7	2.8	2.7	2.7	2.7	2.7	2.9	3.0	*25*	*5.8*
Employees´	1.5	1.5	1.5	1.6	1.7	1.7	1.7	1.7	*24*	*3.2*
Self- and non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	*22*	*0.4*
B. Structure by level of government								% of GDP		
Central government	26.8	24.9	23.9	24.4	25.5	25.9	27.2	26.2	*6*	*49.9*
State government [2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	*24*	*1.3*
Social security funds	3.6	3.7	3.7	3.6	3.8	3.8	3.9	4.1	*24*	*7.8*
EU institutions	0.6	0.5	0.3	0.3	0.2	0.3	0.3	0.3	*20*	*0.5*
C. Structure by economic function								% of GDP		
Consumption	12.1	10.9	11.0	10.9	11.2	11.4	11.5	11.2	*19*	*21.3*
Labour	11.5	11.0	10.0	9.8	10.4	10.4	10.4	10.7	*26*	*20.4*
Employed	11.4	10.9	10.0	9.7	10.4	10.3	10.4	10.6	*25*	*20.2*
Paid by employers	2.7	2.8	2.7	2.7	2.7	2.7	2.9	3.0	*25*	*5.8*
Paid by employees	8.7	8.1	7.3	7.0	7.7	7.6	7.4	7.6	*16*	*14.5*
Non-employed	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*25*	*0.1*
Capital	8.0	7.8	7.4	8.4	8.6	8.9	10.2	9.4	*9*	*17.8*
Capital and business income	6.0	5.9	5.7	6.2	6.2	6.2	7.1	6.6	*9*	*12.5*
Income of corporations	3.8	3.6	3.7	3.8	3.7	3.5	3.9	3.5	*13*	*6.7*
Income of households	1.1	1.1	0.8	1.4	1.5	1.6	2.1	2.0	*2*	*3.8*
Income of self-employed (incl. SSC)	1.1	1.1	1.1	1.0	1.1	1.1	1.0	1.1	*15*	*2.0*
Stocks of capital / wealth	2.0	2.0	1.8	2.2	2.4	2.7	3.2	2.8	*7*	*5.3*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**31.6**	**29.8**	**28.5**	**29.0**	**30.3**	**30.7**	**32.1**	**31.2**	***23***	***59.5***
								% of GDP		
Of which environmental taxes	2.9	2.3	2.3	2.3	2.5	2.5	2.5	2.4	*17*	*4.6*
Energy	1.4	1.2	1.3	1.3	1.3	1.3	1.2	1.2	*27*	*2.3*
Of which transport fuel taxes	-	-	-	1.1	1.2	1.2	1.2	1.1	*24*	
Transport	1.4	1.1	1.1	1.1	1.1	1.2	1.2	1.2	*5*	*2.4*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*22*	*0.0*
D. Implicit tax rates								%		
Consumption	25.9	23.9	24.9	24.7	25.9	26.4	26.5	25.6	*7*	
Labour employed	28.5	27.4	26.0	25.0	26.3	25.4	25.4	25.7	*25*	
Capital	-	-	14.8	16.8	17.8	19.4	21.1	18.5		
Capital and business income	-	-	11.2	12.4	12.9	13.5	14.6	13.0		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	9.2	5.8	6.4	4.5	4.7	6.4	5.7	6.0		
Output gap (potential)	4.1	2.6	2.5	1.3	0.5	1.3	1.7	2.9		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

IRELAND

Overall trends in taxation

Structure and development of tax revenues

At 31.2 % in 2007, the total tax-to-GDP ratio in Ireland (including social security contributions) is the fifth lowest in the Union and the second lowest in the euro area. While this ratio has shown an upward trend from 2002 to 2006, it decreased by almost one percentage point in 2007.

The taxation structure is characterised by a heavy reliance on taxes rather than social security contributions. Indirect and direct taxation make up 43.1 % and 41.0 % of the total revenue respectively, whereas there social security contributions raise only 15.9 % of total tax revenue. In this respect, the structure of taxation differs considerably from the typical structure of the EU-27, where each item contributes roughly a third of the total. As in the majority of Member States, the largest share of indirect taxes is constituted by VAT receipts, which provide about 58 % of total indirect taxes (55.9 % for the EU-27). The structure of direct taxation is similar to that found in the EU-27. Personal income taxes and corporate income taxes represent 7.3 % and 3.4 % of GDP, respectively, compared with 8.0 % and 3.5 % for the EU-27. Social security contributions represent a meagre 4.9 % of GDP (second lowest in the Union after Denmark), compared to an EU-27 average of 11.0 %. Employers' and employees' contributions are at 3.0 % and 1.7 % of GDP, respectively.

Ireland is one of the most fiscally centralised countries in Europe; local government has only low revenues (2.2 % of tax revenues). The social security fund receives just 13.0 % of tax revenues (EU-27 28.5 %), while the vast majority (83.9 %) of tax revenue accrues to central government. This ratio is exceeded only by Malta and the United Kingdom.

From 2000 to 2002, Ireland reduced the total tax burden across the board from 31.6 % to just 28.5 % of GDP. Since 2002, however, the total tax ratio has increased every year, reaching 32.1 % in 2006, in large part due to a surge in VAT receipts, capital gains tax and stamp duties. This upward trend was interrupted in 2007 when the total tax ratio decreased by almost one percentage point. This decrease was mainly driven by lower ratios of VAT, other taxes on products (incl. import duties), and corporate income taxes to GDP.

Taxation of consumption, labour and capital; environmental taxation

The tax structure by economic factor (consumption 35.8 %, labour 34.2 %, capital 30.0 %) differs notably from the EU-27 average (33.6 %, 45.2 %, 21.3 %), with the tax system deriving the smallest proportion of tax receipts from labour of any EU country, apart from Bulgaria, Cyprus and Malta. Conversely, it raises a large proportion from capital taxes, exceeded in this only by the United Kingdom.

Taxes on consumption absorb 11.2 % of GDP (EU-27 12.4 %). After a declining period from 13.0 % in 1995 to 10.9 % in 2001, this ratio has increased slightly to 11.5 % in 2006. This principally reflects buoyant economic activity in that period, which has driven VAT receipts up. However, the value slightly decreased in 2007 to 11.2 % for the first time since 2003. In addition, Ireland applies a zero rate on several products. The weight of indirect taxes others than VAT and excise duties are also high by EU standards.

The very low social security contributions result in one of the lowest level of taxes on labour in the EU (10.7 % of GDP compared with 17.2 % in EU-27). As in many EU countries the implicit tax rate on labour, increased steadily from the early 1970s until the late 1980s. Having attained stability in the early 1990s, the rate fell from 29.3 % in 1996 to 25.7 % in 2007, as a result of successive cuts in personal income tax and social contributions. This constitutes the fourth largest reduction in the ITR on labour in any European country in the period, after Slovakia, Latvia and Estonia.

The Irish case is notable in that the strong economic growth in recent years has offset the effects of the contemporaneous reductions in corporate income tax rates; the CIT rate was cut in half between 2000 and 2003. Indeed, revenues from taxes on capital, at 9.4 % of GDP in 2007, are now higher than in 2000. Much of this was due to soaring receipts from the capital gains tax and stamp duty, which collectively rose to reach respectively 500 % and 337 % of their 2002 level in the wake of the construction boom. The increase of tax revenue despite lower tax rates is also pictured by the ITR on capital.[1)] It is at 18.5 % in 2007 and reached its peak at 21.1 % in 2006. From 2002 to 2006 the ITR on capital increased by more than five percentage points.

As for environmental taxation, it has almost continuously declined over the period, moving from an above average level in 1996 (3.1 % against 2.8 % for the EU-25) to 2.4 % (compared to 2.7 % for the EU-27). Transport taxation is relatively high compared to the EU-27 average (0.5 % points above the EU-27 average) while taxation on energy was the lowest in the Union in 2007.

Current topics and prospects; policy orientation

The current tax policy in Ireland focuses predominantly on mitigating the effects of the global economic downturn. Ireland launched a set of tax measures to stimulate the recovery while meeting revenue needs. Among those measures is a reduction of the stamp duty top rate for non-residential property from 9 % to 6 % to mitigate the slump in the construction sector. Stamp duties on life insurance and non-life insurance policies have been increased. Furthermore, the standard tax band has been widened by € 1 000 for a single person, and by € 2 000 for a married couple with two incomes. In addition, an income levy was introduced (see below for details). The standard VAT rate was increased from 21 % to 21.5 % in December 2008 and some excise duties were increased. The capital gains tax was increased from 20 % to 22 % and again increased on 7th April from 22 % to 25 %. Moreover, the payment dates for corporation and capital gains tax were advanced. The research and development tax credit was increased from 20 % to 25 % of incremental expenditure. A pension levy was introduced on public sector wages. The employee social security contribution ceiling was raised from € 50 700 to € 52 000 in a first step and from € 52 000 to € 75 036 from May 1st 2009.

Main features of the tax system

Personal income tax

The two statutory personal income tax rates have been reduced substantially over the last decade. The standard rate is currently at 20 % and the top rate at 41 %; tax allowances were also replaced by tax credits for equity reasons. The threshold for the higher rate in 2008 is € 35 400 for a single person with no dependants. The supplementary 2009 Budget presented in April 2009 introduced an additional income levy of 2 % on gross income up to € 75 036 per annum and a rate of 4 % for income above this amount. On income in excess of € 174 980 a 6 % levy is payable. Social welfare payments are excluded from this levy. Taxation of individuals on capital gains is made at 25 % with an annual exemption of € 1 270.

Corporate taxation

Companies resident in Ireland and non-resident companies which carry on a trade in Ireland through a branch or agency, are, with a small number of specific exceptions, liable to corporation tax on their taxable profits. Corporation tax is levied at 12.5 % on trading profits. A corporation tax rate of 12.5 % has applied to trading profits in all sectors

1) The downward revision in the ITR on capital compared to the data presented in last year's edition of the report is due to the fact that a full sectoral accounts dataset has now been made available. In the past, the ratio for Ireland was calculated according to a simplified methodology (see 2008 edition, p. 414).

since 1 January 2003. The 10 % rate, which was introduced in 1981, has been phased out; it now only applies to a small group of manufacturing companies until 2010. A 25 % rate applies to other passive (non-trading) income. Capital gains are subject to tax at 25 %.. A profit resource rent tax of between 5 % and 15 %, based on the profit ratio of a petroleum/gas field, was introduced in 2008 for exploration and production activities, which is in addition to the existing corporation tax rate of 25 % for non-trading income.

While withholding taxes on interest, dividends and patent royalties are imposed at 20 %, a number of specific exemptions mean that some payments received by companies are not subject to withholding tax. A surcharge of 20 % is levied on undistributed investment or estate income of a closely held company or a company providing professional services. Losses may be carried forward indefinitely: back one year in the case of continuing business and back three years in the case of a discontinued business. A substantial change in the ownership of a company, combined with a change in the nature of the trade, may result in the restriction of these losses. There are no controlled foreign company rules and no general schemes of transfer pricing or thin capitalisation rules.

VAT and excise duties

The standard VAT rate is now at 21.5 % compared with 21 % in 2007. A reduced rate of 13.5 % applies to various services, newspapers, building work and household energy and fuels, while a zero rate applies to basic food, children's clothing, children's footwear and books.

Wealth and transaction taxes

Capital acquisitions tax is charged at a rate of 25 % on gifts and inheritances over a certain value, depending on the relationship of the beneficiary to the donor or deceased (just over € 542 544 for direct line). Stamp duty applies to sales, gifts, conveyances and leases of property. Rates of stamp duty ranging up to 6 % apply depending on whether property is for residential or non-residential purposes. There is a residential stamp duty rate of zero up to € 125 000 and a 7 % rate on the excess up to a limit of € 1 million. Properties in excess of € 1 million incur a rate of 9 %. First time buyers are exempt; as are, for the most part, purchases of new properties by owner-occupiers. Shares and securities carry a fixed rate of 1 % while leases are subject to rates of 1 % to 12 % of the average annual rent. Capital duty on the issue of share capital was abolished in 2005. There is no net worth tax.

Local taxes

There are no local taxes as such in Ireland, except for a levy imposed on businesses by local authorities called rates, calculated as a percentage of the notional rental value of the business premises, and certain service charges.

Social contributions

Employer's contributions amount to 10.75 % of the salary, without any ceiling. A reduced rate employer's contribution of 8.5 % applies in respect of employees with earnings below € 356 per week. Both rates include a national training fund levy of 0.7 %. The rate for employees' pay-related-social-insurance (PRSI) contributions stands at 4 %. In the budget 2008 the earnings threshold for paying employee PRSI was raised to € 352 per week. The 2009 ceiling for this employee contribution is now € 75 036. The self-employed pay a 3 % tax rate on all income above € 3 174 per annum, with no annual ceiling, and a minimum payment of € 253 per year applies. On top of this, a health contribution levy (HCL) of 2 % of total income must be paid by all wage earners, raising the total contribution to 6 % and 5 % for employees and the self-employed respectively. Since 2004, employees receiving taxable benefits in kind have been taxed under the pay as you earn system and the benefits have been liable to PRSI contributions and the HCL.

Italy	2000	2001	2002	2003	2004	2005	2006	2007	2007 Ranking [1]	2007 € bn
A. Structure of revenues								% of GDP	Ranking [1]	€ bn
Indirect taxes	15.2	14.7	14.7	14.3	14.3	14.5	15.1	15.0	9	230.2
VAT	6.5	6.3	6.2	5.9	5.9	6.0	6.3	6.2	25	95.7
Excise duties and consumption taxes	2.6	2.5	2.3	2.4	2.3	2.2	2.2	2.1	26	32.1
Other taxes on products (incl. import duties)	2.7	2.5	2.6	2.5	2.9	2.8	3.0	3.0	3	46.5
Other taxes on production	3.4	3.5	3.6	3.5	3.3	3.5	3.6	3.6	3	55.9
Direct taxes	14.5	14.8	14.1	14.7	13.9	13.4	14.4	15.2	6	234.0
Personal income	10.6	10.8	10.6	10.5	10.4	10.4	10.9	11.4	5	174.6
Corporate income	2.3	2.9	2.5	2.2	2.2	2.3	2.9	3.2	15	49.7
Other	1.6	1.1	1.0	2.1	1.3	0.7	0.7	0.6	17	9.7
Social contributions	12.1	12.0	12.1	12.3	12.3	12.6	12.5	13.0	9	200.3
Employers´	8.4	8.3	8.4	8.7	8.6	8.8	8.7	9.0	6	138.0
Employees´	2.3	2.3	2.3	2.3	2.2	2.2	2.3	2.3	19	35.4
Self- and non-employed	1.4	1.3	1.4	1.4	1.5	1.6	1.6	1.7	8	26.8
B. Structure by level of government								% of GDP		
Central government	23.2	22.8	22.1	22.1	21.6	21.2	22.8	23.3	12	357.1
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	6.0	6.2	6.3	6.6	6.4	6.4	6.5	6.7	5	102.8
Social security funds	12.1	11.9	12.1	12.3	12.3	12.6	12.5	13.0	6	200.2
EU institutions	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	18	4.3
C. Structure by economic function								% of GDP		
Consumption	10.9	10.4	10.2	9.9	10.0	10.0	10.4	10.2	25	157.1
Labour	19.9	20.2	20.2	20.3	20.1	20.4	20.5	21.2	8	325.6
Employed	17.9	18.0	18.1	18.2	18.0	18.3	18.3	18.9	9	290.3
Paid by employers	10.0	10.1	10.2	10.4	10.3	10.5	10.5	10.8	3	166.2
Paid by employees	7.9	7.9	7.9	7.8	7.7	7.7	7.8	8.1	14	124.1
Non-employed	2.0	2.1	2.1	2.1	2.1	2.2	2.2	2.3	7	35.3
Capital	11.0	10.9	10.5	11.1	10.5	10.0	11.2	11.8	2	181.8
Capital and business income	8.3	8.4	7.6	8.5	7.7	7.4	8.4	9.1	3	139.2
Income of corporations	2.9	3.7	3.1	3.5	3.1	2.9	3.5	3.8	8	58.5
Income of households	2.1	1.4	1.3	1.1	1.1	1.2	1.4	1.5	5	22.6
Income of self-employed (incl. SSC)	3.4	3.2	3.2	3.8	3.5	3.3	3.5	3.8	1	58.1
Stocks of capital / wealth	2.6	2.5	2.8	2.6	2.8	2.6	2.8	2.8	8	42.6
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	41.8	41.5	40.9	41.3	40.6	40.4	42.1	43.3	5	664.4
								% of GDP		
Of which environmental taxes	3.1	3.0	2.8	2.9	2.8	2.7	2.7	2.6	13	39.6
Energy	2.6	2.4	2.3	2.4	2.2	2.2	2.2	2.1	9	31.6
Of which transport fuel taxes	-	-	-	1.8	1.7	1.6	1.6	1.5	13	
Transport	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	15	7.5
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	17	0.5
D. Implicit tax rates								%		
Consumption	17.9	17.3	17.1	16.6	16.8	16.7	17.4	17.1	25	
Labour employed	43.7	43.6	43.5	43.4	43.1	42.9	42.5	44.0	1	
Capital	29.6	29.1	29.2	31.6	29.8	29.6	34.2	36.2		
Capital and business income	22.5	22.5	21.3	24.2	21.9	21.8	25.6	27.7		
Corporations	19.3	23.7	21.0	24.7	21.4	20.8	27.1	30.1		
Households	16.7	14.5	14.2	16.1	15.1	15.1	16.8	17.9		
Real GDP growth (annual rate)	3.7	1.8	0.5	0.0	1.5	0.6	1.8	1.5		
Output gap (potential)	1.2	1.6	0.7	-0.3	0.1	-0.3	0.3	0.5		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

ITALY

Overall trends in taxation

Structure and development of tax revenues

In 2007, the total tax-to-GDP ratio (including social contributions) stood at 43.3 % in Italy. This level exceeds both the average for the Union as a whole and that for the euro area, by respectively 5.8 and 5.1 percentage points. Italy's overall tax burden ranks fifth highest in the EU.

The share of indirect taxes on the total (34.6 %) lies well below the EU-27 average (38.4 %), reflecting Italy's reliance on direct taxes (35.2 % v. 32.3 % for the EU-27), while the share of revenue from social contributions is closer to the EU average. As for indirect taxes, VAT and excise duties raise comparatively little revenue (6.2 and 2.1 % of GDP, the third and second lowest value in the EU), but indirect taxes on products and on production are relatively high. The high revenue from direct taxes is mainly due to the PIT, which, at 11.4 % of GDP, exceeds the EU-27 average by over 40 %. This structure has remained broadly constant since 2000.

Local government collects a relatively high level of revenue (6.7 % of GDP, fifth highest in the EU). Also the volume of revenues collected by social security funds is comparatively high (13.0 % of GDP) and has been trending upwards since 2001.

The total tax-to-GDP ratio has remained above 40 % throughout the 1995-2007 period. From 2000 to 2005, the ratio tended to decline somewhat, but during 2006–07 relatively sharp increases were recorded (1.7 and 1.2 points respectively), owing to growth in all categories of revenue, most particularly PIT and CIT. The 2007 total tax ratio lies less than half a point below its 1997 all-time peak.

Taxation of consumption, labour and capital; environmental taxation

Despite the 1998 increase in the VAT rate from 18 % to 20 % and the abolition of the 16 % intermediate rate, the ITR on consumption, currently 17.1 %, is the third lowest in the EU. This is, however, also due to the fact that Italy applies a favourable VAT regime to housing. Owing to statistical limitations, the data presented here attribute VAT paid on housing to consumption taxes instead of capital stock taxes (see methodology for details).

At 44.0 %, Italy's ITR on labour is the highest in the EU; in 2007, the tax burden on labour exceeded the EU-27 average by over one quarter. In contrast to most Member States, in Italy the ITR on labour has increased markedly since the mid-1990s, despite the mitigating effects of a 1998 reform; the ITR has remained roughly constant since the turn of the century. More recent reforms aimed at decreasing labour taxes have primarily focussed on lower incomes. It is also worth noting that IRAP partly falls on labour[1].

Capital taxes currently yield the second highest revenue in the EU; note however that, under the methodology used here, receipts from taxes and social contributions levied on the self-employed, a large group in Italy, are booked as capital taxes. Taxes on the stocks of capital/wealth, too, are relatively high. The ITR on capital, which had remained relatively constant since 2000, picked up in the 2006-07, reaching a high of 36.2 %[2][3].

1) Accordingly, our methodology allocates part of the tax revenue from IRAP to labour income. The remainder is attributed to the capital income of corporations or the self-employed. The 2007 Budget introduced tax cuts to the labour component of IRAP, but the splitting percentage utilized here dates back to 2005, so that the 2007 ITR on labour could be somewhat overestimated.

2) The analysis of the ITR for Italy is complicated by various factors..For a full discussion see the 2006 edition of this report, p. 152, footnote 2.

In the late 1990s, Italy displayed one of the highest levels of environmental taxation in the EU, mainly on account of elevated energy taxes. Environmental tax revenues have, however, declined considerably since then, as a percentage of GDP, and are now in line with the EU average.

Current topics and prospects; policy orientation

The 2009 Budget Law contained few key measures as the government had brought forward the main budgetary adjustment effort to the summer. In particular, in June 2008, the government had issued a decree introducing a 5.5 point surcharge on the CIT, applicable to companies operating in the oil and gas and electricity sector ('Robin tax'). The decree also stipulated a compulsory inventory revaluation, with the resulting book profits taxed at 16 %.

A number of measures targeted banks and insurance companies. These may now deduct only 96 % of interest expenses (97 % for 2008) and face tighter rules on bad debt provisions. A new anti-avoidance rule stipulates that foreign companies are deemed to be resident for tax purposes if directly or indirectly controlled by Italian resident persons.

The 2009 budget also prolonged until 2011 the measures supporting housing renovation, i.e. the 36 % PIT credit on renovation expenses, and the reduction to 10 % of the applicable VAT rate; a further provision introduced tax incentives on the purchase of household appliances and furniture. The budget law also cut excise duties on gas for industrial use and taxes and social contributions due by road haulage operators, in order to neutralise the effect of higher oil prices on VAT revenue from oil products. In addition, a 2008 law substantially cut housing taxes, freeing the first property owned from the ICI property tax. A cap on the interest rate for variable-rate mortgages was also introduced; banks will be reimbursed through tax credits. Finally, an April 2009 law paves the way for introduction of fiscal federalism in Italy.

Main features of the tax system

Personal income tax

In 2009, PIT rates range from 23 % to 43 %; the top rate applies to incomes above € 75 000. Regions and municipalities levy surcharges on the PIT (ranging from 0.9 % to 1.4 % for regions and up to 0.5 % for municipalities). The tax is withheld at source for salaried workers. Individuals are taxed on their worldwide income, subject to exemptions, such as capital gains on property held for longer than five years or used as a principal dwelling. Individuals earning professional and business income are also subject to IRAP. Professional fees paid by companies, businesses and professionals are subject to an advance withholding tax at a 20 % rate.

All categories of capital income are taxed. Final withholding tax rates of 12.5 % and 27 % apply, depending on the duration and type of the investment. As from 2009, 49.72 % (previously 40 %) of the gains realised on qualified shareholdings are taxed at basic PIT rates; capital gains on non-qualified shareholdings and bonds are instead taxed at 12.5 %. The 2008 'summer decree' abolished tax breaks on stock options, now taxed as ordinary labour income.

Corporate taxation

Company taxation has been subject to several reforms. From 1997 to 2003 a dual income tax (DIT) model was in force, with a special regime for new entrepreneurial activities and a tax credit for the hiring of new employees. Since the end of 2003 the corporate tax (IRPEG) and the DIT have been replaced by a new corporate income tax, IRES, with a statutory tax rate set at 27.5 % (progressively reduced from 37 % in the preceding years). A special regime

3) The Italian authorities have suggested an alternative methodology for calculating the ITRs on labour and capital , in order to better reflect the features of the Italian self-employed sector (see Annex B for an example of Tables C and D calculated following this approach). Despite its merits this methodology has not been followed in order to safeguard maximum comparability with the other Member States.

exists for investment funds and for non-operating companies, for which a minimum taxable income is presumed. Pension funds are subject neither to IRES nor to IRAP (see below), but pay a final 11 % tax on the yearly net result. In addition, a tonnage tax regime exists for shipping companies.

Resident companies are taxed on their worldwide income, non-resident entities on income arising in Italy. Losses can be carried forward for five years (indefinitely if realised in the first three years of operation). The treatment of capital gains depends on whether the assets are covered by the participation exemption regime. Under this rule, 95 % of gains on the sale of shares or equivalent financial instruments are exempted from taxes after a one-year holding period (under some conditions). Other types of capital gain are taxed as ordinary income, but the payment of the tax due may be spread over four years. Group consolidation is allowed both at the domestic level and worldwide, if the parent company controls at least 50 % of the subsidiary. Finally, companies located in particularly depressed areas of the *Mezzogiorno* may apply for a tax credit on investments carried out in the 2007–2013 period, with certain exceptions; an additional 10 %–40 % tax credit on R&D spending can be granted for activities carried out in 2007–2009.

IRAP, introduced in 1998, taxes the net production value, i.e. the difference between the value of production and production inputs *excluding* personnel and interest costs as well as losses on bad debts. The basic 3.9 % rate can be augmented or reduced by up to one percentage point by the regions. The non-deductibility of labour and financial costs results in a wide base; indeed, typically IRAP raises more revenue than the CIT. Since 2007, social contributions, certain training costs incurred on new employees, the costs of R&D personnel , and a basic amount for each employee have been made exempt, and since 2009, 10 % of IRAP paid by employers is deductible from PIT and CIT. Special rules apply to SMEs.

VAT and excise duties

The standard VAT rate is 20 %. A reduced (10 %) and a super-reduced (4 %) rate exist. The super-reduced rate applies mostly to staple foodstuffs, newspapers, some medical appliances, and residential housing; while the reduced rate generally applies to non-luxury housing, other foodstuffs, electricity, mineral oil, medicines and artistic performances.

Wealth and transaction taxes

No wealth taxes as such exist. Until recently, the ICI property tax represented an important revenue-raising instrument, but its scope has been restricted by the 2008 reform. Transaction taxes exist, applying e.g. on property transfers; stamp duties are often due on official documents.

Social contributions

Several compulsory contributions exist, depending on the type and size of the business and the characteristics of the employee. The aggregate rates range from 40 % to 45 % approximately.

Latvia	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	12.3	11.8	11.2	12.1	11.9	12.7	13.2	12.6	*22*	*2.7*
VAT	7.0	6.7	6.7	7.2	7.0	7.8	8.6	8.2	*10*	*1.7*
Excise duties and consumption taxes	3.4	3.1	3.1	3.3	3.5	3.6	3.3	2.9	*17*	*0.6*
Other taxes on products (incl. import duties)	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.8	*19*	*0.2*
Other taxes on production	1.4	1.5	1.0	1.1	1.0	0.9	0.8	0.7	*19*	*0.2*
Direct taxes	7.3	7.6	7.8	7.6	7.9	7.9	8.5	9.2	*21*	*1.9*
Personal income	5.6	5.5	5.6	5.8	5.9	5.7	6.0	6.1	*18*	*1.3*
Corporate income	1.6	1.9	2.0	1.5	1.8	2.0	2.3	2.7	*22*	*0.6*
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	*23*	*0.1*
Social contributions	9.9	9.2	9.3	8.9	8.7	8.4	8.8	8.7	*20*	*1.8*
Employers´	7.4	6.8	6.9	6.4	6.3	6.1	6.3	6.3	*14*	*1.3*
Employees´	2.5	2.4	2.4	2.4	2.4	2.3	2.4	2.4	*18*	*0.5*
Self- and non-employed	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	*26*	*0.0*
B. Structure by level of government								% of GDP		
Central government	14.6	14.4	14.1	14.6	14.5	15.4	16.1	16.0	*21*	*3.4*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	5.0	4.9	4.9	5.1	5.1	4.9	5.2	5.4	*6*	*1.1*
Social security funds	9.9	9.2	9.3	8.9	8.7	8.4	8.8	8.7	*18*	*1.8*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.4	0.4	0.4	*9*	*0.1*
C. Structure by economic function								% of GDP		
Consumption	11.3	10.6	10.6	11.4	11.3	12.2	12.7	11.9	*14*	*2.5*
Labour	15.3	14.6	14.6	14.6	14.6	14.0	14.7	14.6	*18*	*3.1*
Employed	15.2	14.5	14.6	14.5	14.5	13.9	14.6	14.6	*16*	*3.1*
Paid by employers	7.4	6.8	6.9	6.5	6.3	6.1	6.4	6.3	*15*	*1.3*
Paid by employees	7.8	7.7	7.7	8.0	8.1	7.8	8.2	8.3	*13*	*1.7*
Non-employed	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*26*	*0.0*
Capital	2.9	3.3	3.1	2.5	2.6	2.8	3.0	4.0	*25*	*0.8*
Capital and business income	1.7	2.0	2.2	1.7	1.9	2.1	2.4	2.9	*26*	*0.6*
Income of corporations	1.6	1.9	2.0	1.5	1.8	2.0	2.3	2.7	*23*	*0.6*
Income of households	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	*23*	*0.0*
Income of self-employed (incl. SSC)	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	*27*	*0.0*
Stocks of capital / wealth	1.2	1.3	0.8	0.9	0.8	0.7	0.6	1.0	*20*	*0.2*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**29.5**	**28.5**	**28.3**	**28.5**	**28.5**	**29.0**	**30.4**	**30.5**	***24***	***6.4***
								% of GDP		
Of which environmental taxes	2.4	2.2	2.3	2.5	2.6	2.7	2.4	2.1	*24*	*0.4*
Energy	1.8	1.6	1.8	2.0	2.1	2.2	2.0	1.7	*19*	*0.4*
Of which transport fuel taxes	-	-	-	-	-	2.2	2.0	1.7	*11*	
Transport	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	*21*	*0.1*
Pollution/resources	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	*11*	*0.0*
D. Implicit tax rates								%		
Consumption	18.7	17.5	17.4	18.6	18.5	20.2	20.1	19.6	*20*	
Labour employed	36.7	36.5	37.8	36.6	36.7	33.2	33.1	31.0	*19*	
Capital	11.2	11.5	9.6	8.2	8.4	9.6	11.0	14.6		
Capital and business income	6.7	7.0	7.0	5.4	5.9	7.2	8.8	10.8		
Corporations	8.6	8.8	8.3	6.6	8.0	9.6	11.1	13.0		
Households	1.1	0.7	1.1	0.7	0.5	0.5	1.0	1.7		
Real GDP growth (annual rate)	6.9	8.0	6.5	7.2	8.7	10.6	11.9	10.2		
Output gap (potential)	-2.4	-1.0	-1.3	-1.2	-0.2	2.2	6.5	9.9		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

LATVIA

Overall trends in taxation

Structure and development of tax revenues

The ratio of total taxes to GDP in Latvia was 30.5 % in 2007, which is the fourth lowest in the EU after Romania, Slovakia and Lithuania. The tax ratio in neighbouring Estonia is higher by 1.5 percentage points of GDP.

The structure of taxation has undergone significant changes since 2000. As a share of GDP, social security contributions, particularly those paid by employers, have been cut notably while indirect taxes have tended to increase and direct taxes revenue has gone up significantly. In 2007 indirect taxes constituted the most important source of tax revenues with a 41.2 % share of total revenue, which is 2.8 % higher than the EU-27 average. The predominance of indirect taxation is a common feature of the tax systems of the new Member States: out of ten countries with the highest share of indirect taxation, only two joined the Union before 2004. Direct taxes contribute 30.2 % of total revenue compared with the 32.3 % EU-27 average. However, in recent years the share of direct taxes as a percentage of GDP has increased gradually, from 7.3 % in 2000 to 9.2 % in 2007. Most notably, CIT yielded 2.7 % of GDP in 2007, a 50 % increase in three years despite an unchanged tax rate. This value is in line with neighbouring Lithuania but well above the one recorded in Estonia. As mentioned above, revenues from social contributions have been declining quite markedly; as a share of total tax revenues they decreased from 33.5 % of the total in 2000 to 28.6 % in 2007. This is due to an overall reduction of the rate of social insurance contributions, from 36 % to 33.09 %, implemented over several years (2000, 2001 and 2003).

There are only central government taxes in Latvia as local governments do not have any fiscal autonomy. Nevertheless, they ultimately receive 17.8 % of the total tax revenues, a much higher value than the EU-27 average (11.1 %). Since 2006, the bulk of local government receipts are obtained through a majority share of PIT revenue (increasing progressively from 73 % in 2005 to 83 % in 2009).

As in several other Member States the tax ratio tended to increase from 1996 onwards and decline around the turn of the century. In Latvia, the decline started in 1999 and was sizeable and rapid (over 5 % of GDP, equivalent to around one sixth of the total, in just three years). However, since 2002 a steady upward trend has been recorded with a cumulative effect of 2.3 percentage points until 2007, due essentially to higher VAT and CIT revenue. The growth in the revenue ratio between 2003 and 2007 is also linked with a marked acceleration in GDP growth, which has notably contributed to the pickup in CIT revenues since 2003.

Taxation of consumption, labour and capital; environmental taxation

The level of Latvian taxes on consumption as a share of GDP is slightly below the EU-27 average. The ITR on consumption is 2.6 % below the EU-27 average, also owing to a somewhat larger share of consumption in GDP. Consumption tax revenue peaked at 12.7 % of GDP in 2006 after two years of growth, but declined markedly in the following year reaching 11.9 % of GDP.

The ITR on labour is, at 31.0 %, more than three percentage points below the EU-27 average. It has declined markedly, by almost seven percentage points, from its 2002 peak. Over the past decade, employers' social security contributions have been brought down, while employees' contributions have remained constant, as a percentage of GDP.

After a five-year decreasing phase and an 8.2 % trough in 2003, the ITR on capital has trended clearly upwards, reaching 14.6 % in 2007. This still represents one of the lowest rates of the ITR on capital in the EU, as the EU-25 average is 28.7 %. The ITR on capital income of households and the self-employed is significantly below the EU-25 average, but also considerably lower than in the other Baltic States, probably due to a number of exemptions for personal capital income.

Revenue from environmental taxes has tended to decrease from 2005 and remains one of the lowest in the EU with 2.1 % of GDP.

Current topics and prospects; policy orientations

During 2008, in order to counteract the effects of the global financial crisis and to shift the tax burden from taxes on production factors to consumption taxes, the government introduced several new tax measures with an effect from January 2009. These include a reduction of the PIT rate by two percentage points and an increase in basic allowances.

The standard VAT rate was increased by three percentage points from 18 % to 21 %. The reduced VAT rate was increased from 5 % to 10 %. Moreover, various types of goods have been made ineligible for the reduced rate. Finally, excise duties on fuel, coffee, smoking tobacco, alcohol and non-alcoholic beverages were increased in February 2009.

Main features of the tax system

Personal income tax

Latvia reduced the PIT tax rate from 25 % to 23 % from 1 January 2009. PIT allowances such as the basic tax allowance, the allowance for dependent persons and the disability allowances were increased by 12.5 %.

The PIT rate on individuals' business income was reduced from 25 % to 15 %. If the income derived by a resident taxpayer consists of both income subject to PIT at the 15 % rate and other income (which remains subject to a 23 % rate), allowances and deductions are to be allocated proportionally to each part of the income.

Latvian residents are taxed on their worldwide income. Dividends from companies resident in the EU or the EEA paid to a resident personal shareholder are tax free; otherwise the dividends are taxed at 10 % rate. Interest payments and insurance premiums received by resident individuals are exempt in case they are paid out by credit institutions or insurance companies that are established in Latvia, the EU or the EEA. Outbound interest payments to non-resident individuals are generally taxed at source at a 23 % rate. Individuals resident in the EU or EEA that receive more than 75 % of their income in Latvia, are granted nearly all tax exemptions. Furthermore, the income obtained as a result of inheritance is exempt, except for author's copyrights.

Gains from the disposal of immovable property are only taxable if the property has been in the resident's ownership for less than 12 months.

Corporate income tax

Latvia has reduced its corporate income tax rate from 25 % in 2001 to 22 % in 2002, then to 19 % in 2003 and finally to 15 % since 2004. The tax is levied on the income of resident companies (with some exemptions) and of non-resident companies operating through a permanent establishment in Latvia.

Dividends paid by a resident company to a non-resident corporate shareholder are subject to a 10 % withholding tax, except for those who are residents of EU Member States or EEA countries (the participation threshold has been removed retroactively from 1 January 2006). However, if the distributing company is exempt from CIT or entitled to the tax benefits linked to one of the economic zones or free ports, the dividends are taxable for the recipient. Interest income paid out to a corporate non-resident related party is subject to a final 10 % withholding tax (5 % if paid by a bank). Otherwise, interest income paid to non-residents is not subject to the withholding tax. Finally, Latvia applies group taxation; losses can be offset between related companies.

As from 1 January 2009, in the case where a company is not distributing dividends partially or fully, taxable income is reduced by the amount of interest, which the company would have to pay for an equal loan. The reference rate used to calculate this notional interest amount is the Central Bank's average lending rate for national currency in respective year.

VAT and excise duties

The standard VAT rate is 21 % from 1 January 2009 (it had been 18 % since 1995). The reduced VAT rate is 10 % (5 % prior to 2009) and applies to goods such as medicines, medical equipment, certain products for infants, inland public transport services, and the supply of thermal energy, electricity and natural gas to individuals. Periodicals are subject to the 10 % reduced rates until the end of 2009. Excise rates on tobacco were increased gradually and have reached the EU minima. The excise rate on petrol, too, now exceeds the EU minimum.

Social contributions and other taxes

Since 1995, a pension system based on the concept of notional defined-contribution (NDC) accounts is in force. Unlike in the previous PAYG system, the benefits are calculated on the basis of a person's contributions to a notional individual account, utilising a rate of return determined by the government taking into account economic and demographic indicators. No real funds are accumulated into the accounts, and financing the current cohort of retirees is based on payroll contributions. The contribution rate is currently 33.09 %. This rate includes the 24.09 % rate that falls to employers and the 9.0 % rate payable by employees. The rate for the self-employed is marginally lower (30.48 %). Social security contributions paid by the self-employed are payable from annual income equal to 12 times the minimum monthly wage (LVL 2 160 in 2009).

A property tax is applicable to land, buildings and constructions. Its rate was reduced over the years from 4 % to 1.0 % currently. The rate is applied to the cadastral value of property. It is not imposed on houses owned by individuals for residential purposes.

Lithuania	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	Ranking [1]	€ bn
Indirect taxes	12.6	12.2	12.4	11.7	11.2	11.4	11.4	12.0	24	3.4
VAT	7.6	7.3	7.4	6.7	6.5	7.1	7.6	8.2	11	2.3
Excise duties and consumption taxes	3.2	3.3	3.2	3.3	3.0	2.9	2.9	2.9	15	0.8
Other taxes on products (incl. import duties)	1.2	1.0	1.2	1.1	1.1	0.8	0.4	0.4	27	0.1
Other taxes on production	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	22	0.2
Direct taxes	8.4	7.8	7.5	8.0	8.7	9.0	9.6	9.3	20	2.6
Personal income	7.7	7.2	6.9	6.5	6.8	6.9	6.8	6.7	15	1.9
Corporate income	0.7	0.5	0.6	1.4	1.9	2.1	2.8	2.6	24	0.7
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26	0.0
Social contributions	9.4	8.9	8.6	8.5	8.4	8.1	8.4	8.6	22	2.4
Employers´	8.4	8.0	7.8	7.7	7.5	7.3	7.5	7.7	10	2.2
Employees´	0.8	0.8	0.7	0.7	0.8	0.7	0.8	0.8	26	0.2
Self- and non-employed	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	25	0.0
B. Structure by level of government								% of GDP		
Central government	12.7	12.2	15.2	15.2	15.0	15.3	16.0	15.9	22	4.5
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	6.1	5.7	2.8	2.6	2.8	2.8	2.9	3.0	17	0.9
Social security funds	11.6	11.0	10.6	10.4	10.3	10.1	10.3	10.6	15	3.0
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.4	0.3	0.4	4	0.1
C. Structure by economic function								% of GDP		
Consumption	11.8	11.5	11.7	11.1	10.6	10.8	10.9	11.4	16	3.3
Labour	16.3	15.4	14.9	14.6	14.7	14.4	14.6	14.6	17	4.2
Employed	16.3	15.3	14.7	14.4	14.5	14.3	14.4	14.4	17	4.1
Paid by employers	8.4	8.0	7.8	7.7	7.6	7.3	7.6	7.7	11	2.2
Paid by employees	7.8	7.3	6.9	6.7	7.0	6.9	6.9	6.7	20	1.9
Non-employed	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	21	0.1
Capital	2.3	2.0	2.0	2.5	3.1	3.3	4.0	3.9	26	1.1
Capital and business income	1.5	1.3	1.2	1.9	2.4	2.7	3.4	3.3	25	0.9
Income of corporations	0.7	0.5	0.6	1.4	1.9	2.1	2.8	2.6	25	0.7
Income of households	0.1	0.2	0.3	0.2	0.3	0.4	0.3	0.3	19	0.1
Income of self-employed (incl. SSC)	0.6	0.5	0.4	0.3	0.2	0.2	0.3	0.3	24	0.1
Stocks of capital / wealth	0.9	0.7	0.7	0.6	0.7	0.6	0.6	0.6	26	0.2
Less: amounts assessed but unlikely to be collected	0.3	0.3	0.2	0.1	0.1	0.0	0.1	0.0		
TOTAL	**30.1**	**28.6**	**28.4**	**28.1**	**28.3**	**28.5**	**29.4**	**29.9**	**25**	**8.5**
								% of GDP		
Of which environmental taxes	2.4	2.5	2.8	2.8	2.7	2.3	1.8	1.8	26	0.5
Energy	1.8	1.8	2.0	2.0	1.8	1.7	1.6	1.6	22	0.5
Of which transport fuel taxes	-	-	-	-	1.7	1.7	1.6	1.6	12	
Transport	0.7	0.7	0.7	0.7	0.8	0.5	0.1	0.1	26	0.0
Pollution/resources	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	13	0.0
D. Implicit tax rates								%		
Consumption	18.0	17.5	17.9	17.0	16.1	16.5	16.7	17.9	24	
Labour employed	41.2	40.2	38.1	36.9	36.0	34.9	33.6	32.3	16	
Capital	7.2	5.9	5.7	7.1	8.5	9.1	11.6	12.1		
Capital and business income	4.5	3.7	3.6	5.3	6.6	7.4	9.9	10.2		
Corporations	3.9	2.5	2.6	5.7	7.2	8.0	10.8	10.7		
Households	2.5	2.5	2.2	1.8	2.0	2.5	2.6	3.3		
Real GDP growth (annual rate)	4.2	6.7	6.9	10.2	7.4	7.8	7.8	8.9		
Output gap (potential)	-4.5	-2.4	-1.4	2.1	2.5	3.2	4.1	6.1		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

LITHUANIA

Overall trends in taxation

Structure and development of tax revenues

Lithuania exhibits the third lowest total tax burden (including social contributions) in the EU (29.9 % of GDP against an EU-27 average of 37.5 %). This level is below those in the other Baltic States.

Lithuania's reliance on indirect taxes is roughly in line with the EU-27 average. However, compared to the late 1990s, the share of indirect taxes in the total has decreased, while the EU-27 average has increased slightly. Given the light overall taxation, at 12.0 % of GDP, the level of indirect taxes falls well below the EU-27 average (14.3 %). Direct taxes represent 9.3 % of GDP (EU-27 12.4 %) while social security contributions also yield much less than the average (8.6 %, EU-27 11.0 %). The tax mix has somewhat shifted towards direct taxes and away from social security contributions since 2000; however, reforms introduced recently will most probably show a drop in the weight of direct taxation, when the data for 2009 become available.

The proportions of total tax revenue received by central government (53.1 %) and local authorities (10.1 %) lie below the EU-27 averages of 59.4 % and 11.1 %, respectively. In Lithuania, the proceeds from the personal income tax are shared between central government, local government and the social security fund. The national budget receives 70 % of collected personal income tax, while the remaining 30 % goes to the compulsory health insurance fund. About two thirds of the funds accruing to the national budget are directed to the local budgets and the remainder to the central government. These proportions are established by law and revised annually. The corporate income tax conversely accrues entirely to the central government.

Despite accelerating growth, from 2000 to 2003 the already low overall tax burden declined further, by two percentage points of GDP, but has been picking up moderately since then, so that the overall tax ratio is currently roughly on a par with the 2000 level. Revenues from CIT in particular grew robustly, from a very low 2001 trough (0.5 % of GDP) to a 2.6 % level in 2007, which nevertheless represented one of the lowest in the EU. This dynamism is linked to the growth upswing after the 1999 recession and to base-broadening measures, which more than compensated for the 2002 cut in the CIT rate from 24 % to 15 %. In contrast, revenue from the PIT and from employers' social contributions has declined fairly markedly since 2000.

Taxation of consumption, labour and capital; environmental taxation

The ITR on consumption, at 17.9 %, is the fourth lowest in the EU (EU-27 22.2 %). The ITR declined until 2004, but the trend has reversed since then owing to strong VAT receipts.

Overall, labour taxes bring in almost half of all revenues, over the EU average (48.9 %, EU-27 45.2 %). At 32.3 %, the ITR on labour is lower than the EU average (34.4 %). It has been decreasing steadily and forcefully from its 41.2 % peak in 2000, due notably to the increase in basic tax allowances and the successive cuts in the PIT rate.

Taxes on capital are the second lowest in the EU in revenue terms, yielding only slightly less than half of the EU-27 average in GDP terms (3.9 % v 8.0 % for the EU-27) and providing just 12.9 % of all tax receipts (compared with 21.3 % for the EU-27). Despite the recent strong revenue increase, taxes on corporations remain moderate, while the revenue from capital income taxes on the self-employed and households is among the lowest in the EU. The self-employed, notably, have benefited from favourable tax law provisions (their gross incomes was taxed, until 2009, at 15 %) and from 'business certificates', which allow small businesses to pay a small lump sum tax instead of standard income tax. The capital income of households is also subject to the lower 15 % rate. Wealth taxes stand at less than one third of the EU-27 average. All of this is reflected in a low ITR on capital of 12.1 %, a ratio which has however more than doubled since 2002 on the back of both strong economic growth and the base-broadening measures mentioned.

At 1.8 % of GDP, revenue from environmental taxation is the second lowest in the EU, due in particular to the very low revenue from transport taxes (0.1 % of GDP, EU-27 0.7 %). Since 2003, environmental tax revenues, as a share of GDP, have fallen by more than one third.

Current topics and prospects; policy orientation

The end of 2008 brought significant changes in the tax code as, in the wake of the global financial crisis; Lithuania decided to shift the tax burden from labour to consumption and the corporate sector. In the domain of personal taxation, Lithuania is continuing its policy of aggressive tax cuts. After cuts in 2006 and 2008, the PIT rate was slashed to a flat 15% as from 1 January 2009. However, a compulsory health insurance contribution of 6 % was introduced, bringing the combined rate on employment income to 21 % — still below the previous 24 % rate, which included both the PIT and the health insurance component. Significant adjustments have also been made in the social security system, mainly with the aim of better integrating in the system various categories of self-employed persons (athletes, entertainers, owners of independent business activities or royalties, lawyers, notaries and bailiffs, farmers).

In contrast, the corporate income tax rate has been increased from 15% to 20% from 1.1.2009. Moreover, some businesses that were until now exempted from the CIT, like credit unions and certain agricultural partnerships, have become liable to the tax. However, significant investment incentives have been simultaneously introduced for the period up to 2013.

Finally, the standard VAT rate has been increased and the reduced rates have been abolished (additional details below). The tax on beneficial use of public property and an array of excise duties were also hiked.

Main features of the tax system

Personal income tax

Apart from the changes in the rates mentioned above, the latest reform has restructured tax allowances. The basic personal allowance applies to employment income only and is determined on a sliding scale, declining as income increases. No basic personal allowance is granted to employees earning more than LTL 3 150 (€ 910) monthly. A number of allowances were abolished (interest on new mortgages on residential property acquired after 1.1.2009, expenses for personal computers and Internet access) or reduced in scope (expenses for professional training or higher education). The tax exemption of benefits from life insurance companies has now been reduced and subjected to a number of conditions.

The 15 % tax rate also applies to self-employed income (previously, individual entrepreneurs were taxed either at 15 % on a gross basis or at 24 % on a net basis). The self-employed are, however, also subject to a 9 % health insurance contribution (calculated on their gross income). In addition, dividend income is now taxed at a 20 % (instead of a 15 %) rate and is subject to the general 6 % health contribution. Royalties continue to be taxed at 15 %, but the health contribution rate, again, applies.

Corporate taxation

The corporate income tax rate was progressively reduced from 29 % in 1995 to 15 % in 2002, but since the beginning of 2009 has been increased to 20 %. Small companies with up to 10 employees and taxable income not exceeding LTL 500 000 — approximately €145 000 — benefit, however, from a lower 13 % rate.

From 2009 to 2013, an up to 50 % reduction in taxable profit, subject to conditions, is granted to firms acquiring assets such as plant and machinery, structures, ICT equipment, and rights on intangible assets. Companies employing 20 % or more disabled persons also benefit from generous tax credits. As from 2005 the profits of 'social enterprises' are taxable at a 0 % tax rate.

Lithuania adopts a modified classical system whereby dividends are taxed both at the level of the company and in the hands of the shareholder, in the case of a physical person. Dividends distributed to another company are subject to the 20 % corporate income tax which is withheld by the distributing company, unless participation exemption applies. A 10 % withholding tax will continue to be applied to interest (with some exceptions) and royalties. Trading losses can be carried forward for five years, but not back. Both straight-line and declining-balance depreciation are permissible, at quite generous rates. Since 2007, capital gains on shares of EEA-registered entities, or countries having a tax treaty with Lithuania, are exempt if they are subject to corporate income taxation and the transferring entity has held more than one quarter of the capital for two years.

A 'Social tax' was levied in 2006-07 to ensure the financing of social programs and of measures against poverty and social separation. The tax was de facto equivalent to a surcharge on the CIT. The rate was 4 % in 2006 and 3 % in 2007.

VAT and excise duties

As from 1 January 2009, the standard VAT rate has been increased by one point to 19 %. Furthermore, the 9 % rate applying to construction services and the 5 % super-reduced rate have been abolished, so that these goods are now taxed at 19 %, although short transitional regimes apply to some of these goods. Excise duties on alcohol, cigarettes, and fuels have also been increased.

Wealth and transaction taxes

Taxation of capital gains is included in computation of the personal income tax and corporate income tax. Land tax is levied at 1.5 % of land value, while an immovable property tax ranges between 0.3 % and 1 % but applies only to legal persons or premises used for economic activities. Inheritance tax is levied at 5 % and 10 %, while gifts are taxed under the PIT. There is no net wealth tax.

Other taxes

The pollution tax is applied on emissions from stationary and mobile sources (automobiles equipped with an exhaust emission neutralisation system are not subject to this tax), certain goods (e.g. batteries, mercury lamps), as well as packaging. The amount of tax depends on the specific pollution-related indices determined by state institutions. There is also a tax on State natural resources.

Social contributions

The general rate for mandatory state social insurance contribution stands at close to 34 %, of which employers contribute 30.7 % of employees' gross wages to the State Social Insurance Fund (SSIF), while employees typically contribute 3 % for compulsory health insurance. The general rate for the insurance covering professional diseases and accidents at work stands at 0.3 %, but three special groups exist which are subject to different rates.

Luxembourg	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	Ranking [1]	€ bn
Indirect taxes	14.0	13.6	13.0	12.6	13.4	13.3	12.7	12.9	19	4.7
VAT	5.6	5.8	5.8	5.7	6.0	6.1	5.7	5.8	27	2.1
Excise duties and consumption taxes	4.5	4.2	4.4	4.3	4.6	4.2	3.8	3.7	6	1.3
Other taxes on products (incl. import duties)	1.5	1.3	1.1	1.1	1.1	1.2	1.1	1.3	15	0.5
Other taxes on production	2.3	2.2	1.7	1.5	1.7	1.9	2.0	2.1	8	0.8
Direct taxes	15.0	15.3	15.4	14.8	13.1	13.8	13.2	13.6	9	4.9
Personal income	7.2	7.0	6.4	6.5	6.6	7.1	7.5	7.4	12	2.7
Corporate income	7.0	7.3	8.0	7.3	5.7	5.8	5.0	5.4	3	2.0
Other	0.9	0.9	1.0	0.9	0.8	0.8	0.7	0.8	13	0.3
Social contributions	10.1	10.9	10.9	10.8	10.7	10.5	9.9	10.2	18	3.7
Employers´	4.4	4.8	4.8	4.7	4.7	4.6	4.3	4.4	23	1.6
Employees´	4.5	4.9	4.8	4.7	4.7	4.6	4.4	4.6	6	1.7
Self- and non-employed	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	10	0.4
B. Structure by level of government								% of GDP		
Central government	26.5	26.4	26.0	25.1	24.8	25.5	24.3	24.9	8	9.0
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	2.2	2.2	2.4	2.3	1.8	1.7	1.6	1.6	21	0.6
Social security funds	9.8	10.7	10.6	10.5	10.4	10.2	9.7	10.0	16	3.6
EU institutions	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2	26	0.1
C. Structure by economic function								% of GDP		
Consumption	10.8	10.6	10.8	10.6	11.2	10.9	10.1	10.1	26	3.7
Labour	15.3	16.0	15.4	15.3	15.4	15.4	14.8	15.3	16	5.6
Employed	13.8	14.6	14.0	13.9	13.9	14.0	13.4	14.0	18	5.1
Paid by employers	4.4	4.8	4.8	4.7	4.7	4.6	4.3	4.4	23	1.6
Paid by employees	9.4	9.8	9.2	9.2	9.2	9.4	9.2	9.6	10	3.5
Non-employed	1.5	1.4	1.3	1.4	1.4	1.4	1.3	1.4	10	0.5
Capital	13.1	13.1	13.1	12.2	10.6	11.2	10.9	11.3	5	4.1
Capital and business income	8.9	9.2	9.9	9.3	7.7	8.0	7.6	7.7	5	2.8
Income of corporations	7.0	7.3	8.0	7.3	5.7	5.8	5.0	5.4	3	2.0
Income of households	0.8	0.9	0.8	0.9	0.8	1.1	1.5	1.1	9	0.4
Income of self-employed (incl. SSC)	1.2	1.1	1.1	1.1	1.2	1.1	1.1	1.2	14	0.4
Stocks of capital / wealth	4.2	3.9	3.2	2.9	2.9	3.2	3.4	3.6	4	1.3
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	39.1	39.8	39.3	38.1	37.2	37.5	35.8	36.7	16	13.3
								% of GDP		
Of which environmental taxes	2.8	2.8	2.8	2.8	3.0	3.0	2.6	2.6	12	1.0
Energy	2.7	2.7	2.6	2.7	2.9	2.8	2.5	2.4	2	0.9
Of which transport fuel taxes	-	-	-	2.6	2.9	2.8	2.5	2.4	1	
Transport	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	24	0.1
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	24	0.0
D. Implicit tax rates								%		
Consumption	23.1	22.8	22.8	23.9	25.3	26.2	26.3	26.9	4	
Labour employed	29.9	29.6	28.3	29.3	29.5	30.4	30.7	31.2	18	
Capital	-	-	-	-	-	-	-	-		
Capital and business income	-	-	-	-	-	-	-	-		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	8.4	2.5	4.1	1.5	4.5	5.2	6.4	5.2		
Output gap (potential)	4.2	1.9	1.4	-1.5	-0.8	-0.7	0.8	1.9		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

LUXEMBOURG

Overall trends in taxation

Structure and development of tax revenues

At 36.7 %, the tax-to-GDP ratio in Luxembourg was below the EU-27 average (37.5 %). The ratio was lower than in the three neighbouring countries — Belgium, France and Germany.

Direct tax revenues, which were 1.2 percentage points above the EU-27 average in 2007, have been on a downward trend in recent years. Moderate personal income tax (PIT) nominal rates result in a share of PIT revenues in GDP of 7.4 % in 2007, below the EU-27 average (8.0 %). Despite relatively low rates the revenues from corporate income tax (CIT) and excise duties are among the highest in the EU, which is partly due to the importance of the financial sector in the economy and the high degree of openness of the economy leading to substantial earnings from cross-border trade. Revenue from indirect taxes overall lay 1.4 percentage points below the EU-27 average owing to moderate VAT nominal rates.

Over two thirds of levies accrue to the central administration and over a quarter to the Social Security funds. At 1.5 % of GDP, tax revenues accruing directly to the local government are very low in comparison to the 4.3 % EU-27 average and decreased by around one quarter since 2000.

The overall tax burden started to decrease nearly continuously as of 2002. The lagged impacts of below potential growth in 2001–2003 and the 2001 and 2002 cuts in PIT and CIT placed tax revenues on a downward trajectory, so that by 2006 revenues from CIT as a percentage of GDP were down by more than one third from their 2002 peak. A revenue rise on the back of economic growth above potential in the 2005–2007 period lead to an increase in the tax-to-GDP ratio by nearly one percentage point in 2007.

Taxation of consumption, labour and capital; environmental taxation

Consumption taxes (10.1 % of GDP) were 2.3 percentage points below the EU-27 average in 2007. The interpretation of the ITR on consumption for Luxembourg is affected by the small size of the territory and the high degree of openness of the economy. In particular, purchases of excisable goods by non-residents (minus purchases of these goods by Luxembourg residents abroad) are likely to push upward the ITR on consumption. Overall, the ITR on consumption stood at 26.9 % and is 4.7 percentage points above the EU-27 average (22.2 %).

Although it increased in recent years, the ITR on labour (31.2 %) was significantly lower than the EU-27 average (34.4 %). The low level of labour taxation is a result of moderate levels of taxation of personal income and a relatively low level of social contributions.

Between 2000 and 2003, taxes on capital represented roughly one third of total revenue, the highest value in the EU. Although the share of capital taxes in total revenue has slightly decreased to 30.7 % since 2002, it is still considerably above the EU-27 average (21.3 %). This is nearly entirely related to the high proceeds of the CIT, which, despite a decline compared to the beginning of the decade, remains among the highest in the EU as a share of GDP. The high revenue from taxes on capital in general and the CIT in particular, is linked to Luxembourg's large financial sector with a highly internationalised customer base.

Environmental taxation accounted for 2.6 % of GDP in 2007, down from 3.0 % in 2005. This drop, driven by lower energy tax revenues, caused Luxembourg's environmental tax revenues to fall marginally below the EU-27 average (2.7 %).

Current topics and prospects; policy orientation

The Budget Bill 2009 introduces a certain number of changes in the area of taxation and notably reductions in the tax burden on personal and corporate income.

As of 1 January 2009, PIT brackets are linearly indexed by 9 % without modifying the underlying tax rates in order to avoid or reverse 'bracket creep' occurring because of non-indexation of tax brackets to inflation. In 2008, tax brackets had already been adjusted by 6 % but prior to this they had not been adjusted for inflation since 2001. In addition both the general tax allowance and the tax allowance for the retired of € 600 each are replaced by a tax credit of € 300. The deduction of € 1 920 applied to unmarried taxpayers with dependent children is replaced by a tax credit of € 750.

Also with effect of 1 January 2009, the CIT rate is reduced from 22 % to 21 %. The capital duty is abolished from the same date. The motor vehicle tax on company cars, other than buses and taxis, used for the transport of employees is no longer deductible from CIT. These cars also benefit from a subsidy of € 750 if they emit less than 120g CO_2/km.

The Budget Bill 2009 also contains measures to support the financing of owner-occupied dwellings, by increasing the deduction ceiling for the one-off premium paid as part of a temporary life insurance policy and an extension of the preferential tax treatment for the construction or renovation of owner-occupied dwellings (reduced 3 % VAT rate).

The 80 % tax exemption for income and gains from intellectual property rights, introduced in 2008, is extended to Internet domain names from 1 January 2009. In addition, qualifying intellectual property is exempted from net wealth tax.

Main features of the tax system

Personal income tax

The main categories of income are employment income, business income, income from movable capital and miscellaneous income. Taxable income is computed on a cash basis, except for business income (accrual basis) and capital gains from a substantial participation (time of transaction). The top marginal rate is 38 %, applying to incomes of more than € 39 885. In general, expenses incurred to obtain or preserve income are deductible from taxable income. In addition, a resident taxpayer may claim deductions for special expenses and an allowance for extraordinary expenses from his aggregate income. Some former tax allowances have taken on the form of tax credits. They notably refer to child benefits and the compensatory amounts attributed to monoparental taxpayers, the employed and the retired.

Married couples are jointly taxed, but a splitting system applies in the calculation of the tax due. Salaries, wages and pensions derived from former employment are subject to a wage withholding tax. The PIT is increased by a 2.5 % surcharge for the Employment Fund.

Dividends and interests are taxed as income from movable capital. Interest payments are subject to a 10 % final withholding tax. Dividends are subject to a 15 % withholding tax which is not final. Capital gains derived from speculative holdings and significant participation activities are subject to PIT.

Corporate taxation

Corporate income is subject to CIT, increased by a surcharge for the employment fund and a municipal business tax. The corporate tax system is, in principle, classical. The tax on profit is calculated by adding up the general CIT rate of 21 % (previously 22 %), a 4 % solidarity tax surcharge for the employment fund (the effective rate is 21.84 %) and a municipal business tax (which for Luxembourg City amounts to 6.75 %), taking the all-in effective rate to 28.59 % (for Luxembourg City). For SMEs whose taxable income is not more than € 15 000, the basic rate is 20 %.

Luxembourg also applies a system of investment credits and provides for specific tax incentives for new industrial investment (tax credit up to 12 %), venture capital investment and audiovisual investment (investment credit).

VAT and excise duties

Six VAT rates exist. The standard rate is 15 %; a super-reduced rate of 3 % applies to food and beverages, pharmaceutical products, books and newspapers and passenger transport. A reduced rate of 6 % applies to gas, electric power, flowers and labour-intensive services such as hairdressing and window cleaning. An intermediary rate of 12 % applies to wine and coal. Finally, flat rates of 4 % or 9 % apply to farmers and foresters subject to a specific regime.

Regarding excise duties on car fuels, the applicable rate for diesel-driven cars amounts to € 305 per 1 000 litres subsequent to an increase of the Kyoto element (environment protection) of the tax rate from 1 January 2008. Tobacco taxation has changed from 1 February 2009. The new excise rates applying to cigarettes are 46.24 % (proportional element) and € 16.89 per 1 000 cigarettes (specific element). The excise rates applying to fine-cut tobacco and other smoking tobaccos have been raised from 36 % to 37 %.

Wealth and transaction taxes

Resident corporations are subject to wealth tax on their worldwide net worth. The tax rate is 0.5 %. The taxable base is determined as assets less liabilities. Since 2002, wealth tax may be reduced under certain conditions. From January 2006, wealth tax applying to resident individuals was abolished. In parallel a withholding tax on interest income from savings of 10 % was introduced.

Local taxes

The most important local tax accruing directly to municipalities is the municipal business tax. It is levied on all business establishments located in Luxembourg. As explained in the chapter on corporation tax, the municipal business tax adds on to the general corporate tax rate of 21 % and the solidarity tax surcharge of 4 %.

Generally speaking, the volume of local taxes in terms of GDP is low compared to the EU average. Municipalities derive the most important part of their funding from the *Fonds Communal de Dotation financière*. This is a special fund redistributing part of income gathered by the central government from PIT, VAT, motor vehicle tax and excise tax on alcohol to municipalities in addition to a direct allocation from the budget.

Social contributions

Social security contributions for pension, health insurance and family allowances are levied on the gross wage. The pension scheme is financed by central government, employers and employees contributions. A contribution of 16 % of gross wages is paid by both employers and employees. The central government participates with 8 % of total contributions paid on salaries. The health care scheme is financed by central government, employers and employees contributions. A health care contribution of about 5 % of gross wages is paid by both employers and employees. The central government participates with 37 % of total contributions paid on salaries. For family allowances, the rate of 1.7 % is borne by the employee on his salary.

The 1.4 % contribution rate to long-term care insurance is borne by the employees (levied on total gross income including income derived from personal wealth). Unemployment benefits are paid from the Employment Fund. This special fund centralises income from the solidarity tax paid by employers and employees, excise income from certain mineral oil products and direct budgetary endowments from central government.

Malta	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1]*	*€ bn*
Indirect taxes	12.6	13.3	13.6	12.9	14.9	15.4	15.3	15.2	*8*	*0.8*
VAT	6.0	6.4	7.0	6.2	7.4	8.3	8.0	7.7	*15*	*0.4*
Excise duties and consumption taxes	2.5	2.8	2.7	2.7	2.8	3.1	3.1	3.4	*8*	*0.2*
Other taxes on products (incl. import duties)	3.7	3.7	3.6	3.6	3.9	3.5	3.7	3.6	*2*	*0.2*
Other taxes on production	0.3	0.4	0.4	0.4	0.8	0.6	0.5	0.5	*23*	*0.0*
Direct taxes	9.2	10.2	11.4	12.0	11.4	12.0	12.2	13.6	*8*	*0.7*
Personal income	5.6	6.2	6.1	6.3	6.4	6.3	6.4	5.9	*19*	*0.3*
Corporate income	2.9	3.2	3.9	4.5	4.1	4.5	5.0	6.7	*2*	*0.4*
Other	0.7	0.8	1.4	1.2	0.9	1.3	0.8	1.0	*8*	*0.1*
Social contributions	6.4	6.9	6.5	6.5	6.5	6.4	6.2	5.9	*25*	*0.3*
Employers´	2.8	3.1	2.9	2.9	2.9	2.9	2.8	2.6	*26*	*0.1*
Employees´	2.8	3.1	2.9	2.9	2.9	2.9	2.8	2.6	*17*	*0.1*
Self- and non-employed	0.8	0.7	0.7	0.7	0.7	0.7	0.6	0.6	*17*	*0.0*
B. Structure by level of government								% of GDP		
Central government	28.2	30.4	31.5	31.4	32.5	33.3	33.3	34.2	*3*	*1.9*
State government[2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Social security funds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.3	0.5	0.4	0.5	*3*	*0.0*
C. Structure by economic function								% of GDP		
Consumption	12.1	12.7	13.4	12.4	13.2	14.4	14.0	13.9	*5*	*0.8*
Labour	9.7	10.7	10.2	10.3	10.4	10.3	10.2	9.4	*27*	*0.5*
Employed	9.0	10.0	9.5	9.5	9.6	9.4	9.3	8.6	*27*	*0.5*
Paid by employers	2.8	3.1	2.9	2.9	2.9	2.9	2.8	2.6	*26*	*0.1*
Paid by employees	6.2	6.8	6.6	6.6	6.7	6.6	6.5	5.9	*22*	*0.3*
Non-employed	0.7	0.8	0.7	0.8	0.8	0.8	0.9	0.8	*16*	*0.0*
Capital	6.3	6.9	7.9	8.7	9.1	9.1	9.5	11.4	*4*	*0.6*
Capital and business income	5.2	5.7	6.4	7.1	6.7	6.9	7.4	9.3	*2*	*0.5*
Income of corporations	2.9	3.2	3.9	4.5	4.1	4.5	5.0	6.7	*2*	*0.4*
Income of households	1.1	1.3	1.4	1.5	1.4	1.4	1.4	1.5	*4*	*0.1*
Income of self-employed (incl. SSC)	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.0	*17*	*0.1*
Stocks of capital / wealth	1.1	1.3	1.5	1.6	2.5	2.2	2.1	2.1	*11*	*0.1*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**28.2**	**30.4**	**31.5**	**31.4**	**32.8**	**33.8**	**33.7**	**34.7**	***19***	***1.9***
								% of GDP		
Of which environmental taxes	3.7	3.7	3.4	3.4	3.1	3.3	3.4	3.7	*3*	*0.2*
Energy	1.4	1.5	1.4	1.3	1.2	1.3	1.3	1.8	*16*	*0.1*
Of which transport fuel taxes	-	-	-	-	1.2	1.3	1.3	1.7	*10*	
Transport	2.3	2.1	2.0	2.1	1.8	1.8	1.8	1.7	*2*	*0.1*
Pollution/resources	0.0	0.0	0.1	0.0	0.0	0.2	0.2	0.3	*4*	*0.0*
D. Implicit tax rates								%		
Consumption	15.9	16.5	18.1	16.5	17.6	19.7	19.9	20.3	*18*	
Labour employed	20.6	21.4	20.8	20.4	21.0	21.3	21.3	20.1	*27*	
Capital	-	-	-	-	-	-	-	-		
Capital and business income	-	-	-	-	-	-	-	-		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	-	-1.6	2.6	-0.3	1.2	3.5	3.2	3.9		
Output gap (potential)	4.8	-0.3	0.4	-2.2	-3.2	-2.1	-1.3	0.7		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

MALTA

Overall trends in taxation

Structure and development of tax revenues

The tax-to-GDP ratio (including social security contributions) of Malta was at 34.7 % in 2007, 2.8 % percentage points lower than the EU average (37.5 %). With respect to other countries bordering the Mediterranean, this level of taxation is well below that of Italy, France, Spain and Cyprus, but somewhat higher than that of Greece.

Malta relies heavily on indirect taxes; their share of the total tax lies well above the EU average (Malta 43.7 %, EU-27 38.4 %), so that the overall taxation structure is similar to that in the United Kingdom (indirect taxes, direct taxes, social contributions in a ratio of around 2:2:1), perhaps reflecting the fact that the Maltese tax system has its origin in the former British system. Although the Maltese are, on the whole, relatively lightly taxed, indirect taxes therefore absorb a proportion of GDP (15.2 %) which is higher than the EU average (14.3 %). The level of direct taxation is also slightly higher than the EU average (Malta 13.6 %, EU-27 12.4 %) while social security contributions yield comparatively little revenue, roughly two thirds of the EU average in GDP terms (5.9 % of GDP, EU-27 11 %). Within social security contributions, employees contribute somewhat below the European average (Malta 2.6 %, EU-27 3.3 %), while employers contribute less than half the EU average (Malta 2.6 %, EU-27 6.6 %).

As Malta has no sub-central level of government collecting taxes, and does not maintain a social security fund separate from the central exchequer, 98.7 % of receipts are collected by central government (EU-27 average 59.4 %).

The country has experienced a more than 23 % increase in tax revenue when expressed in terms of its share of GDP between 2000 and 2007. All categories of revenue have witnessed an increase, but this was most notable in direct taxation; direct taxes revenue grew by over 48 %. This stems partly from increase in CIT arising from the broadening of the base, and efforts to improve efficiency in collection. The increase in indirect taxes was 20.6 % while social security revenue decreased by 7.8 %, being now one of the lowest values in the EU.

Taxation of consumption, labour and capital

Taxes on consumption generate revenues of 13.9 % of GDP (EU-27 12.4 %), having increased by 1.8 percentage points since 2000. This is mainly due to the widening of the VAT base and the raising of excise duties to bring them in line with EU minimum rates. The ITR on consumption (20.3 %) also reflects this rise, having increased from 15.9 % in 2000. However, the rate remains among the lowest in the Union (EU-27 22.2 %), due partly to the high ratio of consumption to GDP.

The amount of revenue raised from taxation of labour is the lowest in the Union (Malta 9.4 % of GDP, EU-27 17.2 %). This figure results from the fact that employer's social security contributions are low. The ITR on labour is, at 20.1 %, some 14 percentage points below the EU average (34.4 %), the lowest in the EU by a wide margin.

The taxation of capital yields substantial revenue (11.4 % of GDP, EU-27 8 %), putting Malta in fourth place in the EU. This is primarily due to the tax on corporations (at 6.7 % of GDP, the second highest revenue after Cyprus). By contrast the revenue from taxation of the self-employed is below the Union average. Unfortunately, owing to data limitations, no ITR on capital is available for Malta.

Environmental taxes are relatively high (Malta 3.7 % of GDP, EU-27 2.7 % of GDP) and have been increasing further recently. The high level of environmental tax revenue is attributable to taxation on transport, which is the second highest in the Union (1.7 % of GDP, EU-27 0.7 %), while revenue from taxation on energy is roughly equal to the EU average (1.8 %, EU-27 1.9 %).

Current topics and prospects; policy orientation

In 2007 a new PIT system with fewer brackets was introduced. The 2009 budget has further increased personal income tax thresholds after once already increased in 2008. The new regulations also relieve family businesses as the spouse's salary can be deducted and family allowances have increased. VAT exemptions have been extended to cultural services and to registration tax on trucks. In 2009 a primarily CO_2 emission-based registration tax has been introduced for vehicles in Malta. The travellers' departure tax was abolished in November 2008.

Main features of the tax system

Personal income tax

As mentioned above, in 2009 the thresholds of the four bracket PIT system have been increased by around 4 % on average, while the rates have not changed (0 %, 15 %, 25 % and 35 %). The 0 % rate is up to € 8 500 for single individuals and € 11 900 for married couples; while the 35 % rate applies for income over € 19 500 for single individuals and € 28 700 for married couples. Individuals who are ordinarily resident and domiciled in Malta are taxable on their worldwide income e.g. from trades, professions, employments, interest, pensions, annuities, rents, dividends and capital gains. Any income arising in Malta is always taxable in Malta. Apart from the basic personal relief of € 8 500 for single individuals and of € 11 900 for married couples, the Maltese personal income tax system does not offer any other deductions or allowances of note. However, income tax paid by a company can be fully attributed to shareholders following the distribution of dividends by a company. Under this system, dividends paid by a company resident in Malta carry a tax credit equivalent to the tax paid by the company on its profits out of which the dividends are distributed. Shareholders are taxed on the gross dividend at the applicable tax rates, but are entitled to deduct the tax credit attaching to the dividend against their total income tax liability.

Corporate taxation

With a rate of 35 % (which is also the maximum personal tax rate), Malta exhibits one of the highest tax rates applicable to companies in the EU. However, Malta applies the full imputation system of taxation described above and there would be no further tax to pay when dividends are distributed to shareholders. Under this system, dividends paid by a company resident in Malta carry a tax credit equivalent to the tax paid by the company on its profits out of which the dividends are distributed. Shareholders are taxed on the gross dividend at their personal applicable tax rates, but are entitled to deduct the tax credit attaching to the dividend against their total income tax liability.

Therefore the maximum rate of tax payable on company profits — taking into account the tax paid by the company on its profits and the tax paid by the shareholders on dividends received — can never exceed 35 %. Trade losses may be carried forward indefinitely while carry-backs are not permissible. The tax code is restrictive on the use of provisioning for tax purposes (for doubtful debts or investment value losses) but depreciation allowances are available. Capital gains realised by companies are aggregated with other income and taxed at a 35 % rate. The imputation system described above also applies with respect to profits distributed by companies arising out of such gains. Certain tax incentives are available for enterprises involved in shipping, targeted industrial sectors and free port activities.

VAT and excise duties

The standard VAT rate is 18 % with a 5 % reduced rate applicable to holiday accommodation, letting of sites for artistic or cultural activities, electricity, printed material, medical accessories and goods intended for the use of disabled persons. Zero-rated supplies include food, pharmaceutical goods, local transport and cultural services. VAT was introduced in 1995, replaced with a sales tax following a change of government, following which the revenues dropped by more than 1 % of GDP. A further change of government led to its reintroduction in 1999.

Excise duties are moderate on light alcoholic beverages, close to EU average on fuels and relatively high, in comparison with other new Member States, on both strong liquors and tobacco. Both VAT and excise duties generate revenues as a proportion of GDP comparable with the EU average, but other indirect taxes are well in excess of the EU average (3.6 % of GDP, EU-27 1.6 %). This is due to high levels of import duties, stamp duty and car registration duties. The latter also have the effect of raising the aggregate tax on transport above the EU average.

Environmental taxes

In September 2004 the so-called eco-contribution was introduced in Malta. It is chargeable on a number of white goods, containers, batteries, tyres and other specified products that are deemed to result in waste. Currently taxes on pollution yield 0.3 % of GDP, which is the fourth highest level in the EU.

Wealth and transaction taxes

There is no wealth tax but the transfer of immovable property by individuals and companies is normally subject to a rate of 5 % of the transfer value (3.5 % on the first € 117 000 in the case of acquisitions for the purpose of establishing the purchaser's own residence). While there is no withholding tax on dividends or royalties, the distribution of untaxed corporate income, the interest paid by Maltese banks and government and the capital gains arising from the disposal of shares in investment schemes are subject to withholding tax at 15 %.

Social contributions

Maltese workers are covered by a social security system under which the employee, the employer, and the government each contribute 10 % of an employee's basic salary; the self-employed contribute at a rate of 15 %, which is matched by the government, with contributions capped at an annual maximum of € 1 681 for employees and € 2 522 for self-employed persons.

Netherlands	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1]*	*€ bn*
Indirect taxes	12.5	12.9	12.7	12.7	12.9	12.9	13.1	13.1	*17*	*74.2*
VAT	6.9	7.3	7.2	7.3	7.3	7.2	7.4	7.6	*17*	*42.9*
Excise duties and consumption taxes	2.6	2.5	2.5	2.4	2.6	2.5	2.5	2.4	*22*	*13.8*
Other taxes on products (incl. import duties)	2.0	2.1	1.9	1.9	2.0	2.1	2.2	2.1	*10*	*11.7*
Other taxes on production	1.0	1.1	1.1	1.1	1.1	1.1	1.0	1.0	*14*	*5.8*
Direct taxes	12.0	11.7	11.8	11.0	10.7	11.7	11.9	12.3	*13*	*69.9*
Personal income	6.0	6.2	6.8	6.5	6.0	6.6	7.0	7.4	*11*	*42.2*
Corporate income	4.3	4.2	3.6	3.0	3.3	3.6	3.6	3.5	*11*	*20.1*
Other	1.6	1.3	1.4	1.4	1.4	1.5	1.3	1.3	*4*	*7.6*
Social contributions	15.4	13.7	13.3	13.8	13.9	12.9	14.1	13.5	*8*	*76.8*
Employers´	4.5	4.3	4.3	4.3	4.3	4.0	4.6	4.5	*22*	*25.8*
Employees´	7.9	6.7	6.4	6.7	6.9	6.4	6.5	6.2	*2*	*35.3*
Self- and non-employed	3.1	2.6	2.5	2.8	2.7	2.5	3.0	2.8	*1*	*15.6*
B. Structure by level of government								% of GDP		
Central government	22.3	22.6	22.5	21.6	21.6	22.6	23.2	23.6	*10*	*133.6*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	1.4	1.4	1.4	1.5	1.5	1.5	1.3	1.3	*22*	*7.4*
Social security funds	15.4	13.7	13.3	13.8	13.9	12.9	14.1	13.5	*5*	*76.8*
EU institutions	0.8	0.7	0.5	0.5	0.5	0.5	0.5	0.5	*2*	*3.0*
C. Structure by economic function								% of GDP		
Consumption	11.7	11.9	11.7	11.8	12.0	11.9	12.2	12.2	*12*	*69.3*
Labour	20.4	18.0	18.4	18.8	18.6	18.2	19.7	19.6	*11*	*111.4*
Employed	17.5	15.6	15.9	16.2	16.1	15.7	17.0	16.9	*12*	*96.0*
Paid by employers	4.5	4.5	4.5	4.4	4.4	4.1	4.7	4.6	*22*	*26.3*
Paid by employees	13.0	11.1	11.4	11.8	11.7	11.6	12.3	12.3	*6*	*69.7*
Non-employed	2.9	2.4	2.5	2.6	2.6	2.6	2.7	2.7	*3*	*15.4*
Capital	7.8	8.4	7.7	6.8	6.9	7.4	7.1	7.1	*19*	*40.2*
Capital and business income	5.6	6.2	5.4	4.6	4.7	5.1	5.1	5.0	*20*	*28.4*
Income of corporations	4.3	4.2	3.6	3.0	3.3	3.6	3.6	3.5	*12*	*20.1*
Income of households	-1.1	0.1	-0.1	-0.4	-0.5	-0.5	-0.6	-0.6	*27*	*-3.3*
Income of self-employed (incl. SSC)	2.3	1.9	2.0	2.0	1.9	1.9	2.0	2.0	*9*	*11.6*
Stocks of capital / wealth	2.2	2.2	2.3	2.1	2.2	2.3	2.0	2.1	*13*	*11.8*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**39.9**	**38.3**	**37.7**	**37.4**	**37.5**	**37.6**	**39.1**	**38.9**	***11***	***220.8***
								% of GDP		
Of which environmental taxes	3.9	3.8	3.7	3.7	3.9	3.9	4.1	3.9	*2*	*21.9*
Energy	1.9	1.8	1.8	1.8	1.9	2.0	2.0	1.8	*15*	*10.4*
Of which transport fuel taxes	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.2	*19*	
Transport	1.4	1.3	1.2	1.2	1.3	1.3	1.4	1.4	*4*	*7.7*
Pollution/resources	0.7	0.7	0.6	0.6	0.6	0.6	0.7	0.7	*2*	*3.8*
D. Implicit tax rates								%		
Consumption	23.7	24.4	23.9	24.2	24.8	25.0	26.5	26.8	*5*	
Labour employed	34.5	30.6	30.9	31.5	31.4	31.6	34.6	34.3	*14*	
Capital	20.8	22.6	24.3	21.0	20.4	18.2	17.2	16.4		
Capital and business income	15.0	16.7	17.2	14.3	13.9	12.5	12.3	11.6		
Corporations	18.5	17.3	18.1	14.4	14.4	12.5	11.9	11.0		
Households	8.0	13.0	12.9	11.9	10.5	10.4	10.8	10.5		
Real GDP growth (annual rate)	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.5		
Output gap (potential)	2.8	1.8	-0.6	-2.2	-1.8	-1.5	-0.2	1.3		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

NETHERLANDS

Overall trends in taxation

Structure and development of tax revenues

In 2007, the tax-to-GDP ratio was 38.9 % in the Netherlands. This value lies 1.4 percentage points above the EU-27 average (37.5 %) and somewhat above the euro area average (38.2 %).

Indirect taxes, direct taxes and social contributions each account for about one third of total tax revenues. Since 2000 reliance on VAT has increased, making tax revenue less sensitive to the business cycle. The weight of corporate income tax (CIT) decreased because of a reduction in the statutory income tax rates. In the 2001 tax reform the burden from taxes and social security premium was lowered. Most allowances were replaced by tax credits; these apply not only to the PIT but to social security contributions as well. Therefore, the relief of the 2001 tax reform is found mainly in social security contributions.

From a fiscal viewpoint, the Netherlands display a fairly centralised tax structure as local government taxes account for merely 3.4 % of total tax revenues, a share which is below a third of the EU-27 average (11.1 %). In contrast, the share of social security funds (34.8 %) is well above the European average (28.5 %). Revenues received by the central government are slightly above the EU-27 average.

Between 2000 and 2003 tax revenues as a share of GDP decreased continuously. The decline in the overall tax ratio was driven by decreases in revenues from direct taxes and social contributions, while indirect taxation has grown. The increases of the shares of personal income taxes and employers' social security contributions explain to a large extent the rise in the total tax burden since 2005.

Taxation of consumption, labour and capital; environmental taxation

The implicit tax rate on consumption shows an increasing trend since 2002, partly as a result of increases in revenues from VAT and environmental taxes. In 2007, the implicit tax rate was 4.6 percentage points higher than the EU average (22.2 %).

The ITR on labour dropped significantly in 2001 as a result of the PIT reform reducing substantially employees' social contributions. Since then the ITR has increased by 3.7 percentage points. The large share of this increase is due to the replacement of private health care insurance contributions by a new public health care insurance system in 2[1]006. In 2007, the ITR (34.3 %) was in line with the EU average (34.4 %).

The ITR on capital increased significantly from 2000 to 2002. This increase stems largely from higher revenues from taxes paid by households. From 2003 onwards the ITR on corporations has been declining probably due to the lagged effects of cyclical factors and, as of 2005, due to the impact of strong CIT rate cuts. This drives down the general ITR on capital. In 2007, the ITR on capital in the Netherlands was 16.4 %, more than 12 percentage points below the EU-25 average. Revenue from taxes on the capital income of households are negative and, at – 0.6 % of GDP, the lowest in the EU (EU-27 0.8 %). The negative value is mainly due to the mortgage interest deduction (balanced with the deemed rental value of owner-occupied houses) and the deduction of contributions to pillar 2 pensions in the wage tax/income tax.

1) Under the accounting conventions followed in this report, this replacement leads to an increase in the ITR on labour although disposable income of households is unaffected.

At 3.9 % of GDP, the Netherlands has the second highest level of environmental taxes as a percentage of GDP in the Union after Denmark. The Netherlands raises significant revenue from transport taxes and is one of the few countries in the Union with a non-negligible contribution of pollution taxes, originating from a tax on pollution of surface waters and sewerage charges (0.7 % of GDP, EU-27 0.2 %).

Current topics and prospects; policy orientation

The current focus of the tax policy is on simplification and greening of the tax system, and encouraging innovative entrepreneurship.

As of 1 January 2009, the ceiling for the deduction of annuity premiums related to private pensions is substantially raised. The tax credit for working parents is increased. In addition, the parental leave tax credit for working parents is increased and the eligibility for the tax credit no longer depends on participation in the lifelong savings scheme. The tax plan also introduces a number of administrative simplifications in the tax and social security systems. The employee's contribution to the unemployment social security scheme is abolished. Employees working after reaching the age of 62 are entitled to a bonus of up to € 3 000. As for company taxation, small and medium-sized businesses are granted a tax exemption on a larger share of their profits. Furthermore, the relief for new enterprises (*startersaftrek*) is increased.

The tax plan contains a number of environmental measures in the field of car taxation. The basis for car taxation is changed from list prices to CO_2 emissions. For highly fuel-efficient cars the motor vehicle tax is abolished and for cars running on natural gas the motor vehicle tax is reduced. A tax exemption is introduced for hydrogen.

The government plans to propose a bill by mid-2009 to simplify and modernise the inheritance tax regime with expected entry into force on 1 January 2010. The aim is to reduce the number of tax brackets from 28 to 4 and to cut the maximum rate from 68 % to below 50 %. The rate reduction would be financed through a broadening of the tax base, and through combating structures to avoid inheritance tax.

In response to the current financial and economic crisis the government has announced several measures including several tax measures. The first set of measures were introduced at November 2008 and included the easing of existing depreciating rules for investments in 2009 in order to encourage companies to invest in new assets. The arbitrary or accelerated depreciation 2009 is applicable to both corporate- and income tax liable entrepreneurs and applies to all business assets with some exception (e.g. housing, industrial buildings and immaterial fixed assets). Further, it was decided to lower the SME tariff of the second tax bracket of corporate income tax from 23% to 20 % for both 2009 and 2010. This tariff applies to amounts up to 200.000 euro.

The additional set of measures introduced in March 2009 contains more extensive tax measures. Tax facilities for environmental investments are expanded as well as tax credit for R&D investments. The ticket tax on air plane tickets – introduced in 2008 – is abolished and a demolition subsidy for old cars is introduced. Furthermore, it was decided to ease the rules for loss compensation and to allow companies to pay the due VAT quarterly instead of monthly. Another set of measures for SMEs will be included in the tax plan 2010.

Main features of the tax system

Personal income tax

The Dutch PIT system consists of three so-called boxes:

Box 1 consists of labour income items as well as some capital income items, such as the proceeds of capital that proprietors employ in their own businesses, the presumptive income from owner-occupied housing, interest and rental income. The sum of income in Box 1 is taxed at progressive rates ranging from 33.6 % to 52 % (income tax and social security contributions). The highest rates applies to income above of € 53 860.

Box 2 contains profit distributions and capital gains in connection with closely held companies, in which particular shareholders have a substantial interest. The nominal PIT rate on these income items is 25 %, but the effective overall tax rate is higher, because these items are also subject to the corporation tax at the level of the company.

Box 3 includes the returns on individually held assets such as saving deposits, stocks, bonds, and real estate (except owner-occupied housing). The items in this box are subject to the presumptive capital income tax. The statutory rate is 30 % on a presumptive return of 4 % on the average value of the net assets during the taxable year.

Corporate taxation

In the Netherlands, profit for fiscal purposes is not necessarily calculated on the basis of the annual financial statements. Profits should be determined according to 'sound business practice', a concept that has mainly been developed in case law. One of its requirements is the use of consistent accounting methods. This means that the method of determining profits may be changed only if this is compatible with sound business practice.

Under certain conditions a parent company may be taxed as a group together with one or more of its subsidiaries. For corporate income tax (CIT) purposes this means that the parent company and subsidiary are deemed to be one fiscal entity. The main advantages of group taxation are that the losses of one company can be offset against profits from another company within the group, and that fixed assets can in principle be transferred tax free from one company to another. The current profits of corporations (publicly and closely held companies) are subject to the corporation tax at a rate of 25.5 % (20 % for profits up to € 275 000 in 2008 and € 200 000 in 2009).

VAT and excise duties

There are two rates. The standard rate, which was increased from 17.5 % following the 2001 reform, is 19 %. A reduced rate of 6 % applies to inter alia food, water, pharmaceuticals, art, cultural events and publications.

The Netherlands applies a wide range of green taxes: environmental taxes (taxes on groundwater, tap water, waste materials, fuels and the regulatory energy tax), excise duties on petroleum oils and taxes on vehicles (goods vehicle tax, tax on private cars and motorcycles and tax on heavy goods vehicles).

Wealth and transaction taxes

The net wealth tax was abolished in 2001. Inheritance and gift taxes are levied at rates ranging from 5 % to 68 % depending on the relationship between the donor and the beneficiary and the amount involved if the amounts exceed certain allowances.

Social contributions

The social security system (*sociale verzekeringen*) is composed of national insurance (*volksverzekeringen*) and employee insurance (*werknemersverzekeringen*). The national insurance applies to all inhabitants and its financing is integrated in the income tax and wage (withholding) tax levy. The employee insurance applies to employees and is financed by a levy calculated on gross salaries (with a maximum amount) and depends on the economic sector. For basic health insurance each adult pays a fixed amount of, on average, € 1 012 a year. In addition, 6.5 % of gross earnings are paid up to a maximum income of € 30 623. For the latter contribution an employee receives mandatory full compensation from his employer. This compensation is subject to the personal income tax. Furthermore low-income taxpayers can receive a compensation for the fixed health care insurance payments (*zorgtoeslag*).

Poland	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking [1)]*	*€ bn*
Indirect taxes	12.6	12.5	13.2	13.2	13.1	13.9	14.5	14.5	*11*	*44.8*
VAT	6.9	6.8	7.2	7.1	7.2	7.7	8.1	8.4	*8*	*25.9*
Excise duties and consumption taxes	3.7	3.7	4.0	4.1	4.2	4.2	4.0	4.2	*2*	*13.0*
Other taxes on products (incl. import duties)	0.8	0.6	0.6	0.6	0.4	0.3	0.3	0.4	*26*	*1.2*
Other taxes on production	1.3	1.4	1.4	1.3	1.4	1.7	2.0	1.5	*12*	*4.7*
Direct taxes	7.2	6.7	6.9	6.6	6.4	7.0	7.5	8.7	*22*	*26.8*
Personal income	4.4	4.5	4.3	4.2	3.6	3.9	4.6	5.3	*22*	*16.5*
Corporate income	2.4	1.9	2.0	1.8	2.2	2.5	2.4	2.8	*20*	*8.5*
Other	0.3	0.3	0.6	0.6	0.5	0.6	0.5	0.6	*18*	*1.8*
Social contributions	12.9	13.4	12.9	12.8	12.3	12.3	12.2	12.0	*12*	*37.2*
Employers´	5.7	5.7	5.4	5.2	4.9	4.9	4.8	4.8	*21*	*14.9*
Employees´	5.5	5.5	5.1	5.2	5.0	4.8	4.9	4.8	*5*	*14.9*
Self- and non-employed	1.8	2.1	2.5	2.4	2.4	2.5	2.5	2.4	*4*	*7.4*
B. Structure by level of government								% of GDP		
Central government	16.9	16.1	16.9	16.7	15.2	16.4	17.4	18.2	*19*	*56.2*
State government[2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	3.0	3.1	3.3	3.1	4.0	4.1	4.3	4.7	*9*	*14.5*
Social security funds	12.9	13.4	12.9	12.8	12.3	12.3	12.2	12.0	*9*	*37.2*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.3	0.3	*19*	*0.9*
C. Structure by economic function								% of GDP		
Consumption	11.3	11.1	11.8	11.9	11.8	12.2	12.4	13.0	*9*	*40.1*
Labour	14.2	14.4	13.4	13.2	12.5	12.6	13.0	13.4	*20*	*41.5*
Employed	13.5	13.6	12.7	12.5	11.8	11.9	12.2	12.5	*20*	*38.5*
Paid by employers	5.7	5.7	5.4	5.2	4.9	4.9	4.8	4.8	*21*	*14.9*
Paid by employees	7.8	7.9	7.3	7.3	6.9	6.9	7.3	7.6	*15*	*23.6*
Non-employed	0.7	0.8	0.7	0.7	0.7	0.7	0.8	1.0	*13*	*3.0*
Capital	7.2	7.0	7.8	7.4	7.5	8.4	8.7	8.8	*10*	*27.2*
Capital and business income	5.5	5.3	5.8	5.6	5.7	6.2	6.2	6.7	*8*	*20.7*
Income of corporations	2.4	1.9	2.0	1.8	2.2	2.5	2.4	2.8	*22*	*8.5*
Income of households	0.2	0.1	0.2	0.3	0.2	0.2	0.2	0.2	*22*	*0.7*
Income of self-employed (incl. SSC)	2.9	3.3	3.6	3.5	3.3	3.5	3.6	3.7	*2*	*11.4*
Stocks of capital / wealth	1.6	1.7	1.9	1.8	1.8	2.2	2.5	2.1	*12*	*6.5*
Less: amounts assessed but unlikely to be collected	0.2	0.4	0.4	0.3	0.3	0.4	0.4	0.4		
TOTAL	**32.6**	**32.2**	**32.7**	**32.2**	**31.5**	**32.8**	**33.8**	**34.8**	***18***	***107.5***
								% of GDP		
Of which environmental taxes	2.1	2.1	2.4	2.5	2.6	2.7	2.8	2.7	*10*	*8.4*
Energy	1.8	1.8	2.0	2.1	2.1	2.3	2.3	2.4	*3*	*7.4*
Of which transport fuel taxes	-	-	-	-	1.7	1.8	1.9	1.9	*4*	
Transport	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	*22*	*0.7*
Pollution/resources	0.2	0.1	0.2	0.1	0.1	0.1	0.3	0.1	*12*	*0.2*
D. Implicit tax rates								%		
Consumption	17.8	17.2	17.9	18.3	18.4	19.5	20.2	21.4	*15*	
Labour employed	33.6	33.2	32.4	32.7	32.7	33.1	34.2	35.0	*13*	
Capital	20.5	20.7	22.5	20.7	19.1	21.6	22.8	-		
Capital and business income	15.9	15.7	16.9	15.6	14.5	15.9	16.2	-		
Corporations	37.1	37.2	37.0	21.9	18.7	20.8	19.5	-		
Households	10.0	10.8	11.9	12.6	11.7	12.6	13.4	-		
Real GDP growth (annual rate)	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.6		
Output gap (potential)	1.2	-0.3	-1.8	-1.3	0.1	-0.7	0.4	1.7		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

POLAND

Overall trends in taxation

Structure and development of tax revenues

As at 2007, the ratio of total taxes on GDP in Poland lay at 34.8 %, well below the EU-27 average (37.5 %). This level is lower than in other neighbouring countries such as the Czech Republic (36.9 %) and Germany (39.5 %), but is higher than in Slovakia (29.4 %).

Indirect taxes play a much more important role in Poland than direct taxes (14.5 % of GDP compared to 8.7 % in 2007). Indeed, the proceeds from indirect taxes lie close to the EU mean value (14.3 %), whereas direct tax revenue is well below the EU-27 average (12.4 %). Revenue from personal income taxes in particular account for 5.3 % of GDP, only slightly more than half the EU-27 average (8.0 % of GDP). The main reason for the low level of direct taxes is the substantial shift from personal income tax to social security contributions that took place in 1999, with the introduction of a global reform of the social security system. Social security contributions play as important a role as indirect taxes, accounting for 12.0 % of GDP, a level exceeding the EU-27 average (11.0 %).

The distribution of revenue between levels of government has changed significantly over the period under consideration, as central government revenue, has shrunk since 1995, while the share collected by social security funds has increased. Local government revenue oscillated around the 3 % of GDP mark after the introduction of the first major reform of the local governments in 1999, before increasing to 4 % from 2004 onwards as a result of the new law on local government finance.

The overall tax burden decreased progressively from 37.1 % of GDP in 1995 to 31.5 % in 2004, reflecting mostly the reforms of tax and social security contributions carried out in those years. In contrast, the 2004–2007 period was characterised by an increase in the tax-to-GDP ratio, which reached a level of 34.8 % of GDP in 2007. This trend has been driven mostly by an increase in VAT revenues, as a result of a strong domestic consumption, and by robust growth in PIT revenue due to a rise in employment.

Taxation of consumption, labour and capital; environmental taxation

Revenue from consumption taxes is close to the EU-27 average (13.0 % of GDP, EU-27 12.4 %). The ITR on consumption declined markedly from 1995 to 2001 but has been picking up since, reflecting strong VAT and excise duties revenue growth.

At 35.0 %, the ITR on labour for 2007 is slightly above the EU-27 average (34.4 % in 2007). The ratio has been picking up steadily since 2002, but remains below the level recorded in 1995.

The ITR on capital for 2007 is not available. As of 2006, the ITR on capital stood at 22.8 % — a value well below the EU-25 average (25.7 %). It increased by 3.7 percentage points from 2004 to 2006 mainly due to the more effective collection of corporate taxes.

The ratio of environmental taxation to GDP has increased by half over the last decade to reach 2.7 % of GDP, a value perfectly in line with the EU-27 average (2.7 %). The increase was driven by energy taxation, as other types of environmental taxes yielded stable or even declining revenue.

Current topics and prospects; policy orientation

From 1 January 2009, the new personal income tax rates of 18 % and 32 % have been introduced, replacing the 2008 rates of 19 %, 30 % and 40 %.

The investment incentive (i.e. an immediate accelerated depreciation of certain fixed assets), which is available to small taxpayers and newly established entities under both personal and corporate income taxes, has been increased from € 50 000 to € 100 000.

The period for VAT refund has been shortened from 180 to 60 days. VAT on bad debts lasting more than 180 days will be refunded to the seller by the tax authorities.

VAT payers are allowed to report to the authorities on a quarterly basis, yet the payments are due on a monthly basis.

Main features of the tax system

Personal income tax

The main emphasis of the tax measures undertaken since 1995 in the field of the personal income tax was on closing tax loopholes, reducing exemptions, and simplifying the tax code. Furthermore, PIT rates have been reduced four times since 1995. To counterbalance the decline in PIT progressivity in recent years, the tax base has been broadened by abolishing a number of tax deductions, perceived as distorting consumption, savings and investment decisions, and by including fringe benefits and benefits in kind within taxable income.

Since 2009 Poland applies two tax rates, i.e. 18 % and 32 %. The lowest statutory rate applies to the vast majority of taxpayers; for 2009 the threshold is set at PLN 85 528 (around € 19 000). Income above PLN 85 528 (around € 19 000) is charged at 32 %. Dividends and interest payments are subject to a final withholding tax at a rate of 19 %.

There is a personal allowance of PLN 3 089 (around € 690), which is granted to all taxpayers. There are a limited number of allowed deductions that may reduce aggregate taxable income, e.g. social security contributions, donations to religious and public utility organisations and the costs of an Internet access in the taxpayer's premises. A tax credit is granted for contributions to the obligatory health insurance scheme (up to 7.75 % of the tax base). Individuals are required to pay individual income tax and spouses are taxed separately. However, spouses may elect to file a joint tax return, provided that they were married during the entire tax year

Corporate taxation

Since 1995 a number of tax measures have been taken in the field of corporate taxation. Over the last few years, the corporate income tax has been cut alongside the personal income tax; in particular, tax rates have been significantly reduced through stepwise reductions to the current 19 % level from 40 % in 1996 (see also Part II.4). The tax base has been broadened by limiting or abolishing various incentive schemes, investment credits and property-related tax shelters. Depreciation for tax purposes has been brought more closely in line with economic depreciation and the number of depreciation schedules has been drastically reduced. A number of amendments have been made to the tax law in order to adapt it to the EU regulations on direct taxation, such as the EC Parent-Subsidiary Directive, the EC Merger Directive and the Interest and Royalties Directive, and to the rulings of the European Court of Justice on withholding taxes and thin capitalisation.

The Polish corporate income tax system is a classical tax system; corporate income is fully taxed at the company level, with the distributed profits being taxed again by way of a final withholding tax in the hands of the shareholders. The corporate income tax rate is 19 % and is applicable to income and capital gains. Capital gains are added to total ordinary income. Tax law provides for a list of non-deductible expenses (e.g. representation expenses).

From 1 January 2007 donations made to public organisations registered in Poland or another EEA country (EU Member States, Iceland, Liechtenstein and Norway), as well as donations for religious purposes, are deductible from taxable income up to a maximum of 10 % of income.

Tax losses may be carried forward for five years. The set-off may not exceed 50 % of the loss in each year. Tax loss carry-back is not allowed. Poland applies the notion of a tax group.

In 2007 a new regulation applicable to small taxpayers and business start-ups was introduced. It allows for a one-off depreciation of certain fixed assets. The deduction takes place in the year when the fixed asset is recorded. The maximum amount of deduction has been raised from € 50 000 to € 100 000 from 2009 onwards.

VAT and excise duties

VAT law provides for the following tax rates: the basic 22 % rate, the reduced 7 % rate, the 3 % super-reduced rate and the 0 % rate. The standard rate is applicable to most goods and services. As a result of the accession negotiations, Poland was granted transitional arrangements in the area of indirect taxation (VAT and excise duties) until the end of 2007, and therefore, it maintained the reduced VAT rate on restaurant services and construction and the zero rate on books. The application of the transitional arrangements has been prolonged until 2010. A special reduced rate of 5 % applies to lump sum refunds to flat scheme farmers.

Wealth and transaction taxes

There is no wealth tax. The stamp duty applies to official acts performed on the basis of notification or upon request of the person concerned.

Social contributions

Both employers and employees have to pay social security fund contributions for old-age pensions, at equal rates of 9.76 % of gross remuneration. Employees' contributions are withheld by the employer. There is a ceiling on contributions to the old-age pension fund equal to the annual equivalent of 30 projected average monthly salaries in the calendar year. In addition to the compulsory scheme there is a possibility to opt for employees' voluntary private pension plans and life insurance. The social security system includes also contributions for disability insurance (1.5 % paid by employee and 4.5 % by the employer); health and maternity insurance (paid at 2.45 % by employee), as well as injury insurance (paid solely by employer at 0.97 % to 3.86 %). Additionally, there is an obligatory health insurance contribution to cover medical expenses (paid at 9 %), which is creditable against the income tax liability, up to 7.75 %.

Portugal	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	14.1	14.0	14.5	15.1	14.4	15.3	15.7	15.3	*6*	*25.0*
VAT	8.0	7.8	7.9	8.0	8.0	8.7	8.8	8.8	*6*	*14.3*
Excise duties and consumption taxes	2.7	2.9	3.1	3.3	3.2	3.1	3.2	2.9	*16*	*4.7*
Other taxes on products (incl. import duties)	2.8	2.7	2.6	2.4	2.5	2.7	2.9	2.8	*4*	*4.6*
Other taxes on production	0.6	0.7	0.9	1.4	0.7	0.7	0.8	0.8	*18*	*1.3*
Direct taxes	9.9	9.5	9.4	8.7	8.6	8.5	8.8	9.8	*17*	*15.9*
Personal income	5.6	5.6	5.4	5.4	5.2	5.3	5.5	5.7	*21*	*9.3*
Corporate income	3.9	3.4	3.4	2.9	3.0	2.8	3.0	3.7	*8*	*6.0*
Other	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	*22*	*0.6*
Social contributions	10.3	10.5	10.8	11.1	11.1	11.4	11.4	11.7	*15*	*19.1*
Employers´	6.7	6.7	6.9	6.9	7.1	7.3	7.4	7.6	*11*	*12.4*
Employees´	3.2	3.4	3.4	3.6	3.5	3.5	3.4	3.5	*11*	*5.7*
Self- and non-employed	0.5	0.4	0.4	0.6	0.5	0.5	0.5	0.6	*18*	*0.9*
B. Structure by level of government								% of GDP		
Central government	21.0	20.6	21.1	21.0	20.2	20.8	21.6	22.2	*16*	*36.2*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	2.1	2.0	2.1	2.0	2.1	2.2	2.2	2.2	*19*	*3.6*
Social security funds	10.7	10.8	11.1	11.5	11.5	11.8	11.8	12.1	*8*	*19.7*
EU institutions	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	*17*	*0.5*
C. Structure by economic function								% of GDP		
Consumption	12.4	12.4	12.7	12.7	12.7	13.5	13.8	13.3	*7*	*21.7*
Labour	14.1	14.3	14.5	14.8	14.8	15.2	15.3	15.8	*15*	*25.7*
Employed	13.5	13.6	13.8	13.9	13.9	14.2	14.3	14.7	*15*	*24.1*
Paid by employers	6.7	6.7	6.9	6.9	7.1	7.3	7.4	7.6	*12*	*12.4*
Paid by employees	6.8	6.9	6.9	7.0	6.8	6.9	6.9	7.1	*18*	*11.6*
Non-employed	0.6	0.7	0.7	0.9	0.9	1.0	1.0	1.0	*12*	*1.7*
Capital	7.8	7.2	7.4	7.4	6.5	6.4	6.8	7.6	*14*	*12.5*
Capital and business income	5.8	5.3	5.2	4.6	4.6	4.3	4.6	5.3	*18*	*8.7*
Income of corporations	3.9	3.4	3.4	2.9	3.0	2.8	3.0	3.7	*9*	*6.0*
Income of households	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.8	*13*	*1.3*
Income of self-employed (incl. SSC)	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.9	*19*	*1.4*
Stocks of capital / wealth	2.0	2.0	2.3	2.7	2.0	2.1	2.2	2.3	*10*	*3.8*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**34.3**	**33.9**	**34.7**	**34.8**	**34.1**	**35.1**	**35.9**	**36.8**	***15***	***60.0***
								% of GDP		
Of which environmental taxes	2.7	3.0	3.2	3.1	3.1	3.1	3.0	2.9	*7*	*4.8*
Energy	1.6	1.9	2.1	2.2	2.2	2.1	2.0	2.0	*10*	*3.3*
Of which transport fuel taxes	-	-	-	1.9	2.0	1.9	1.9	1.9	*6*	
Transport	1.1	1.1	1.0	0.9	0.9	1.0	0.9	0.9	*7*	*1.5*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*23*	*0.0*
D. Implicit tax rates								%		
Consumption	19.2	19.3	19.9	19.8	19.7	20.6	21.0	20.3	*17*	
Labour employed	27.0	27.4	27.6	27.8	27.9	28.1	28.6	30.0	*22*	
Capital	32.7	30.6	32.2	31.4	27.3	28.5	30.8	34.0		
Capital and business income	24.3	22.3	22.3	19.7	19.1	19.2	20.9	23.7		
Corporations	25.5	22.7	22.4	19.0	18.8	19.4	22.6	-		
Households	16.3	14.9	15.1	15.0	11.8	10.3	8.6	-		
Real GDP growth (annual rate)	3.9	2.0	0.8	-0.8	1.5	0.9	1.4	1.9		
Output gap (potential)	2.9	2.5	1.2	-1.1	-1.0	-1.2	-0.9	0.0		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

PORTUGAL

Overall trends in taxation

Structure and development of tax revenues

In 2007, the Portuguese overall tax burden (including social contributions) stood at 36.8 % of GDP, somewhat below the EU-27 and euro area averages (37.5 % and 38.2 %, respectively). Portugal's tax-to-GDP ratio is slightly below that in neighbouring Spain.

Portugal relies relatively heavily on indirect taxation for collecting budget revenue. In 2007 the share of indirect taxes amounted to 41.7 % (EU-27 38.4 %). The share on VAT over GDP was nearly one percentage point higher than the EU-27 average. The share of social contributions, too, is above the EU average (31.8 %, EU-27 29.5 %), mainly due to a high share of employer's social security contributions. On the other hand, the share of direct taxes amounted to only 26.5 % of total tax revenue (EU-27 32.3 %), mainly due to modest PIT levels.

As for the structure by level of government, the share of taxes collected by local government is quite low at 6.0 % (EU-27 11.1 %), whereas the percentage received by social security institutions is rather high (32.8 %, EU-27 28.5 %). The share of the central government is close to the EU-27 average.

The tax-to-GDP ratio oscillated around the 34 % mark in the 2000–2004 period. In the following three years the ratio went up by more than 2 ½ percentage points. Whereas the augmentation in the ratio in 2005 was mainly due to higher VAT revenue following rate increase, rising growth rates led to higher revenue in particular from taxes on capital in 2006 and 2007.

Taxation of consumption, labour and capital; environmental taxation

In line with high revenue from indirect taxes, taxes on consumption play an important role in Portugal, representing more than 36 % of total tax revenue. Mainly due to the increase in the VAT standard rate in 2002 and 2005 the implicit tax rate on consumption increased in recent years, reaching 20.3 % in 2007. Nevertheless, it remained below the EU-27 average (22.2 %).

Taxes on labour as a percentage of GDP are below the EU average (15.8 %, EU-27 17.2 %). The implicit tax rate on labour has increased quite significantly in recent years, however, from 27.0 % (2000) to 30.0 % (2007), despite marginal reductions in personal income tax rates and targeted reductions of social contributions. Nevertheless, the implicit tax rate on labour still remains well below the EU-27 average (34.4 %).

The ITR on capital, at 34.0 % in 2007, was well above the EU-25 average (EU-25 28.7 %). In line with the EU-25 average, it had increased constantly since the 2004 low. The capital tax-to-GDP ratio has shown a similar trend in recent years as the ITR on capital. In 2007 the capital tax-to-GDP ratio has gone up, as in the EU-27 in general, mainly do to a strong increase in revenues from corporate taxation.

After several years with increases in corporate tax revenues (as % of GDP), the ratio declined from 3.9 % of GDP in 2000 to 2.8 % in 2005, in line with the strong reduction in the top statutory CIT rate and as a consequence of lower growth rates. By 2007, as growth accelerated, the ratio, however, nearly reached the 2000 peak again (3.7 %).

At 2.9 % of GDP, Portugal's level of environmental taxes is above the EU average (EU-27 2.7 %), notably with respect to energy taxes (70 % of total environmental taxes). The 2007 level is, however, well below the 2002 peak (3.2 % of GDP).

Current topics and prospects; policy orientation

The State Budget for 2009 contains adjustments in several areas of taxation. Although the individual income tax rates remained unchanged, several new measures entered into force as of 1 January 2009. Namely, there has been an increase in deductions from taxable income related to education, health, dwelling and nursing home expenses. Moreover, commuting expenses are excluded from taxable income and personal deduction allowance for disabled taxpayers has been increased.

As far as the corporate income tax is concerned, the Portuguese authorities introduced a new general 12.5 % rate for taxable profits up to € 12 500 in order to improve the business environment for SMEs. Moreover, advance payments for SMEs were reduced.

As concerns the real estate tax, the top rate was reduced and the period of payment exemption extended.

Main features of the tax system

Personal income tax

In Portugal the personal income tax (IRS) is levied on the aggregated base of six income categories. There is no personal allowance, but a single personal tax credit which is linked to the minimum wage and to the family situation of the taxpayer. Portugal applies a progressive tax rate with seven brackets (from 10.5 % to 42.0 % in 2009), the top marginal rate being reached at an income of € 64 110. In the Azores the rates are reduced by 20 %, while in Madeira the rates range from 8.5 % to 41 %. As of 2007 municipalities choose their share in the revenue from IRS, up to a maximum of 5 % of their resident taxpayers' tax liability. If the stake is below 5 %, a tax credit corresponding to the difference will be granted to the resident taxpayer.

Spouses living in a single household have to file a joint return including the aggregated family income. However, they benefit from an income-splitting relief. Interest and dividends are subject to a withholding tax of 20 %. Resident individuals may opt to include 50 % of the gross domestic dividends (or dividends received from EU entities covered by the Parent-Subsidiary Directive) in their taxable income according to the partial exemption system and in the latter case the tax withheld at source constitutes an advance payment.

In the years up to 2006, Portugal reduced the statutory PIT rates in several steps, adjusted thresholds upwards and made tax credits for savings, housing, health and education expenses more favourable. In 2006, however, a higher top rate was introduced.

Corporate taxation

As of 1 January 2009, two corporate income tax rates (IRC) apply. Taxable profits up to € 12 500 (included) are subject to a new rate of 12.5 %. The former general rate of 25 % is applied to taxable profits surpassing € 12 500. The new rate is inapplicable to companies that have undergone a major reorganisation or restructuring after 31 December 2008 and achieve a taxable income below € 12 500. In addition, the rate of 12.5 % will not apply to contributions of assets and liabilities by individual taxpayers to a company's share capital, whenever the activity undertaken by the company is the activity previously undertaken by the individual. Given the introduction of the new 12.5 % rate, the simplified scheme for small companies with a reduced rate of 20 % will be progressively abolished. Subject to certain conditions, companies operating in less developed inland areas may qualify for a reduced rate of 15 % (10 % for the first five years if they are start-ups) and other tax incentives. For the Azores and Madeira special rules apply.

On top of the corporate income tax, municipalities may levy a non-deductible surcharge of up to 1.5 % of the taxable profit (before the deduction of tax losses). Capital gains are not taxed separately but are usually included in ordinary income. Under special conditions, a 50 % tax relief is granted if the proceeds are reinvested. Ordinary losses are deductible in the calculation of the tax base, whereas special rules apply for capital losses derived from the sale of shares.

In 2002, the partial imputation system was replaced by a partial exemption system.

VAT and excise duties

After increases of two percentage points in 2002 (to 19 %) and 2005 (to 21 %), the standard VAT rate was cut by one percentage point to 20 %, effective as of 1 July 2008.

Portugal applies three VAT rates: besides the standard 20 % rate, an intermediate 12 % rate (on restaurants, some wines, some foodstuffs, fuel oil and coloured diesel) and a reduced 5 % rate (mainly on basic foodstuffs, books, periodicals and newspapers, water and electricity). In the Azores and Madeira the standard rate is 15 %, whereas the intermediate rate is 8 % and the reduced rate is 4 %. Excise duties revenues are in line with the EU-27 average.

Wealth and transaction taxes

In December 2003 and January 2004 respectively, the local tax on real estate and the transfer tax were replaced by new municipal taxes. Currently, two taxes on wealth are in force: the municipal real estate tax (IMI) and the municipal real estate transfer tax (IMT). There is no net wealth tax. The gift and inheritance tax was abolished in 2004. A stamp tax is levied on transfers of property on death or gift only if the donor and the beneficiary are not next of kin.

Local taxes

In addition to the taxes already mentioned, taxation at the local level also comprises a municipal tax on vehicles.

Social contributions

Employees pay contributions equal to 11 % of their gross salary without any ceiling (10 % for members of the corporate board, but up to a ceiling). The employers' contribution rate is 23.75 % (21.25 %). Social security contributions are deductible from the PIT and the CIT.

Romania	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	12.2	11.4	11.6	12.3	11.7	12.9	12.7	12.8	*21*	*15.8*
VAT	6.5	6.3	7.1	7.2	6.7	8.1	7.9	8.1	*12*	*10.1*
Excise duties and consumption taxes	3.0	2.8	2.6	3.5	3.6	3.3	3.2	3.1	*14*	*3.8*
Other taxes on products (incl. import duties)	2.2	1.6	1.3	1.0	1.0	1.0	1.1	0.7	*21*	*0.9*
Other taxes on production	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.8	*17*	*1.0*
Direct taxes	7.0	6.4	5.8	6.0	6.4	5.3	6.1	6.8	*26*	*8.4*
Personal income	3.3	3.3	2.7	2.8	2.8	2.3	2.8	3.3	*25*	*4.1*
Corporate income	3.0	2.5	2.6	2.8	3.2	2.7	2.8	3.1	*17*	*3.8*
Other	0.7	0.6	0.5	0.4	0.3	0.3	0.4	0.4	*21*	*0.5*
Social contributions	11.2	11.1	10.7	9.5	9.2	9.7	9.8	9.9	*19*	*12.3*
Employers´	8.1	7.2	6.5	6.2	5.9	6.4	6.3	6.3	*16*	*7.7*
Employees´	3.0	3.8	4.2	3.1	3.0	3.0	3.4	3.4	*12*	*4.1*
Self- and non-employed	0.0	0.0	0.1	0.2	0.3	0.3	0.1	0.3	*20*	*0.4*
B. Structure by level of government								% of GDP		
Central government	15.9	12.9	12.2	12.5	12.4	12.3	11.5	11.7	*27*	*14.5*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	3.4	5.5	5.5	5.9	5.8	6.0	7.5	7.6	*4*	*9.4*
Social security funds	11.1	10.5	10.4	9.4	9.1	9.5	9.6	9.8	*17*	*12.1*
EU institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.3	*n.a.*	*n.a.*
C. Structure by economic function								% of GDP		
Consumption	11.6	10.7	10.9	11.5	11.1	12.3	12.0	11.9	*13*	*14.7*
Labour	13.2	13.0	12.3	11.2	10.8	11.1	11.7	12.1	*22*	*15.0*
Employed	13.2	12.9	12.3	11.1	10.7	11.0	11.7	11.9	*22*	*14.7*
Paid by employers	8.1	7.2	6.5	6.2	5.9	6.4	6.3	6.3	*17*	*7.7*
Paid by employees	5.1	5.8	5.8	4.9	4.8	4.6	5.4	5.6	*24*	*7.0*
Non-employed	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	*22*	*0.3*
Capital	5.6	5.2	4.8	5.0	5.3	4.5	4.8	5.4	*22*	*6.7*
Capital and business income	4.4	4.0	3.8	4.0	4.5	3.6	3.8	4.2	*23*	*5.2*
Income of corporations	3.0	2.7	2.6	2.8	3.2	2.7	2.8	3.1	*18*	*3.8*
Income of households	1.3	1.1	1.0	0.9	1.0	0.7	0.8	0.8	*12*	*1.0*
Income of self-employed (incl. SSC)	0.1	0.2	0.1	0.3	0.3	0.3	0.2	0.3	*25*	*0.4*
Stocks of capital / wealth	1.2	1.2	1.1	1.0	0.9	0.9	1.0	1.2	*18*	*1.5*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**30.4**	**28.9**	**28.1**	**27.7**	**27.3**	**27.9**	**28.6**	**29.4**	***27***	***36.4***
								% of GDP		
Of which environmental taxes	3.5	2.4	2.1	2.4	2.4	2.0	1.9	2.1	*23*	*2.6*
Energy	3.2	1.9	1.7	2.0	2.3	1.8	1.7	1.7	*18*	*2.1*
Of which transport fuel taxes	-	-	-	-	1.9	1.8	1.7	-	*n.a.*	
Transport	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	*19*	*0.4*
Pollution/resources	0.1	0.4	0.3	0.3	0.0	0.1	0.1	0.0	*21*	*0.0*
D. Implicit tax rates								%		
Consumption	16.8	15.5	16.2	17.7	16.4	17.9	17.7	18.1	*23*	
Labour employed	32.2	31.8	31.1	29.5	28.9	28.0	30.4	30.1	*21*	
Capital	-	-	-	-	-	-	-	-		
Capital and business income	-	-	-	-	-	-	-	-		
Corporations	-	-	-	-	-	-	-	-		
Households	-	-	-	-	-	-	-	-		
Real GDP growth (annual rate)	2.1	5.7	5.1	5.2	8.5	4.2	8.2	6.0		
Output gap (potential)	-7.9	-5.4	-3.9	-2.7	1.0	0.4	3.0	2.9		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

ROMANIA

Overall trends in taxation

Structure and development of tax revenues

The overall tax-to-GDP ratio of Romania is, at 29.4 % in 2007, more than eight percentage points lower than the EU-27 average. The level of taxation in Romania is the lowest in the EU and markedly lower than in neighbouring Bulgaria (34.2 %) and Hungary (39.8 %).

The tax structure of Romania stands out in several respects. Romania has the fourth highest reliance on indirect taxes in the EU after Bulgaria, Cyprus and Malta. Indirect taxes supply 43.4 % of total tax revenue compared to a 38.4 % EU-27 average, while the share of social contributions account for 33.6 % (EU-27 29.5 %) and direct taxes only for 23.0 % (EU-27 32.3 %). Because of this structure, the share of VAT on total tax and social contributions revenue in 2007 (27.7 %) was the third highest in the Union. The low level of direct taxes is mainly due to low personal income taxes (merely 3.3 % of GDP), amounting to around 40 % of the EU-27 average.

The share of taxes collected by local government is two thirds of the share of the central government (25.8 % and 39.9 % of total tax revenue, respectively), representing a relatively high value in comparison with the other EU Member States. The share of funds accruing to local government has increased by nearly two and a half times since 2000. The revenue shares received by the social security funds account for 33.2 %, almost five percentage points above the EU-27 average. In per cent of GDP, however, the revenues of the social security funds are nearly one percentage point below the EU average.

The tax-to-GDP ratio declined continuously in the 2000–2004 period by overall more than three percentage points, mainly due to a reduction in revenues from direct taxes and social security contributions paid by employers. The latter went down by more than one quarter. This development was partly reversed up to 2007. Higher revenues in all three major tax categories lead to an increase in the tax-to-GDP ratio from 27.3 % (in 2004) to 29.4 % in 2007.

Taxation of consumption, labour and capital; environmental taxation

The ITR on consumption is, at 18.1 % in 2007, 4.1 percentage points lower than the EU-27 average. Due to the very high share of final consumption of households in GDP, consumption taxes as per cent of GDP are nevertheless in line with the EU average (11.9 %, EU-27 12.4 %).

The ITR on labour steadily declined from 2000 to 2005, altogether by more than four percentage points. The strongest reduction of nearly one percentage point can be observed in 2005, the year of the introduction of the flat PIT. In 2006, however, the ITR on labour picked up by more than two percentage points and remained rather stable in 2007. The ITR was markedly below the EU-27 average (30.1 %, EU-27 34.4 %), which is mainly due to low revenues from personal income taxes on employed labour income.

Taxation of capital is one of the lowest in the EU, yielding merely 5.4 % of GDP as compared with 8.0 % in the EU average. This is due to low revenues from all categories of capital taxes but those on the capital income of households, which is equal to the EU average. In line with the EU averages, the capital income taxation of corporations has increased in 2006 and 2007 and currently lies 0.6 percentage points below the EU-27 average. Due to data limitations, no ITRs on capital are available for Romania.

Based on available data, environmental tax revenue, at 2.1 % of GDP in 2007, lies well below the EU-27 average (2.7 %); in fact, this value is the fifth lowest in the EU. Most of this revenue is realised on energy: the other two categories of environmental taxes, transport and pollution/resources, each raise less than half the EU average. Revenues from environmental taxes have overall decreased in recent years.

Current topics and prospects; policy orientation

In autumn 2008, the Romanian authorities implemented several tax changes in order to react to the global financial crisis. These changes include temporary tax exemptions on capital gains from trading securities on the Romanian stock market. This exemption is in force from 1 January 2009 and will be applicable for a period of one year. Moreover, specific types of capital gains realised by non-residents are now subject to permanent tax exemption; a reduction in dividend taxes for non-residents is also foreseen. The cap for the deductibility for voluntary pension and health contributions from corporate and personal income was increased as of January 2009.

Social security contribution rates undergo regular changes. After several reductions in recent years, the latest with effect as of 1 January 2009, the social security budget law 2009 led to an increase by 3.3 percentage points in contribution rates with effect of 1 February 2009. An increase of 2.3 percentage points falls on the employers.

In December 2008, the government introduced a 5 % reduced VAT rate for the construction of social dwellings and, subject to conditions, private dwellings not exceeding 120 m^2 and a value of RON 380 000 (about € 90 000). In February 2009, the government decided to reduce the car pollution tax, which had been tripled for some types of vehicles at the end of 2008, by one third. Furthermore, the government increased the excise duties on alcohol beverages, cigarettes and fuel as from April 2009.

Main features of the tax system

Personal income tax

As from 2005, a flat rate tax system has replaced the previous four-bracket system, with tax rates ranging from 18 % to 40 %. The flat tax rate has been set at 16 %, the same applied on taxable corporate profits. This rate in general applies to income from independent work activity, royalties, income from movable and immovable property (such as rents), but also to short-term capital gains on listed shares. Interest income, too, is subject to a final withholding tax of 16 %.

Taxpayers do not need to fill in a tax return if they only receive labour income in Romania or from investments and other activities subject to a final withholding tax. Commuting expenses and expenses incurred on secondment are generally exempt, under conditions. Moreover, employment income earned by employees whose main activity is software development is also exempted from income tax. Benefits in kind are normally taxed, but meal vouchers are exempted from tax. Income from stock options is not taxed when the option is granted nor upon its exercise, but only when the acquired shares are sold. Pension income is taxed only for the portion exceeding a threshold, which is adjusted regularly (currently RON 1 000 per month, around € 235).

Corporate taxation

Romanian corporate income tax follows the classical system: corporate profits are taxed at the company level and distributed profits are taxed again at the level of both corporate and individual shareholders. The standard flat-tax rate is 16 % (before 2005 it was 25 %). Dividends received from other Romanian resident companies are exempt from taxation. Capital gains are generally treated as ordinary business income and subject to the same rate.

Expenses incurred for business purposes are generally deductible, except when used to supply benefits to shareholders or employees or when related to damaged or lost goods. Depreciation over periods fixed by the law applies to assets with a value above RON 1 800 (€ 425); depreciation may follow the straight-line, degressive or accelerated method. Companies have to allocate up to 5 % of the annual accounting profits to a legal reserve, which is not taxed until its amount reaches 20 % of the share capital. Banks, insurance companies, credit unions and guarantee funds may create specific tax-deductible reserves.

The EC Parent-Subsidiary Directive applies from 1 January 2007. The transitional period relating to implementation of the Interest and Royalties Directive, foresees that a 10 % withholding tax will apply to interest and royalties if the non-resident is registered as a legal entity (or has a permanent establishment) in an EU Member State. In other circumstances, the standard withholding tax rate of 16 % applies to interest and royalties.

For businesses such as gambling, nightclubs and casinos, there is a minimum tax equal to 5 % of the turnover. Micro-enterprises (having between one and nine employees, a turnover of less than € 100 000 and not deriving more than 50 % of their income from consultancy and management) may opt for taxation at a rate of 2 % of the turnover instead of the general corporate income tax (the rate will be 2.5 % in 2008 and 3 % as of 2009).

VAT and excise duties

The standard VAT rate is 19 %; a reduced rate of 9 % applies to several goods like pharmaceutical products, medical equipment for disabled persons, books, newspapers, admission to cultural services and hotel accommodation. As mentioned above, as of 2009, a 5 % reduced rate applies to the supply of social and some private dwellings.

VAT exemptions without right of deduction apply to, among others, medical treatments; educational and cultural activities (with some exceptions), public postal services, certain banking and financial transactions, insurance and reinsurance, and buildings and land (this exemption does not apply to a delivery made by a taxable person who is entitled to deduct the respective tax).

Wealth and transaction taxes

There are neither net wealth taxes nor gift or inheritance taxes in Romania.

Immovable property located in Romania is subject to a local building tax. The tax is levied at rates varying between 0.1 % for buildings owned by individuals and 0.25 % to 1.5 % for company-owned buildings, depending on the building's taxable value and book value, respectively. If the building has not been revalued during the last three years, the rates for company owned buildings vary from 5 % to 10 %. Land both inside and outside city limits is in general subject to local land tax.

Social contributions

Social security contributions are payable at a combined rate for the employer and the employee. As of 1 February 2009, employees with normal working conditions must contribute for social security at 10.5 % calculated on the gross income earned without any ceiling. Employers contribute at a rate of 20.8 %. In the case of particular and special working conditions, higher rates for the employers apply.

In addition, employees must contribute at 5.5 % to the health insurance fund and at 0.5 % to the national unemployment fund. Employers in particular have to contribute to the health insurance fund at a rate of 5.2 %, the unemployment fund (rate 0.5 %) and the work accidents insurance fund (rate from 0.15 % to 0.85 %).

All social contributions are deductible for income tax purposes.

Slovakia	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking 1)*	*€ bn*
Indirect taxes	12.5	11.4	11.6	12.1	12.5	12.8	11.6	11.6	*26*	*6.4*
VAT	7.0	7.3	7.0	7.5	7.8	7.9	7.5	6.7	*22*	*3.7*
Excise duties and consumption taxes	3.1	2.7	2.9	3.1	3.3	3.7	2.9	3.5	*7*	*1.9*
Other taxes on products (incl. import duties)	1.7	0.7	0.7	0.6	0.5	0.3	0.3	0.4	*25*	*0.2*
Other taxes on production	0.7	0.7	0.9	0.9	0.9	1.0	1.0	0.9	*15*	*0.5*
Direct taxes	7.5	7.5	7.1	7.1	6.1	6.0	6.1	6.1	*27*	*3.4*
Personal income	3.4	3.5	3.3	3.2	2.7	2.6	2.5	2.6	*27*	*1.4*
Corporate income	2.6	2.6	2.5	2.8	2.6	2.7	2.9	2.9	*19*	*1.6*
Other	1.5	1.4	1.3	1.2	0.8	0.6	0.7	0.6	*16*	*0.3*
Social contributions	14.1	14.3	14.6	13.8	13.1	12.6	11.7	11.7	*14*	*6.4*
Employers´	9.1	8.9	8.9	8.4	7.6	7.0	6.3	6.3	*15*	*3.5*
Employees´	2.9	3.0	3.0	2.8	2.9	3.0	2.8	2.8	*15*	*1.5*
Self- and non-employed	2.1	2.5	2.8	2.6	2.6	2.6	2.7	2.7	*2*	*1.5*
B. Structure by level of government								% of GDP		
Central government	18.9	17.7	17.3	18.0	17.1	15.4	14.2	14.4	*23*	*7.9*
State government 2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	1.4	1.5	1.6	1.5	1.5	3.5	3.3	3.2	*14*	*1.8*
Social security funds	13.8	14.0	14.3	13.5	12.9	12.2	11.6	11.5	*12*	*6.3*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.3	0.4	*7*	*0.2*
C. Structure by economic function								% of GDP		
Consumption	12.2	11.0	11.2	11.8	12.1	12.5	11.3	11.3	*18*	*6.2*
Labour	15.0	15.1	15.0	14.4	13.2	12.5	11.5	11.6	*23*	*6.4*
Employed	14.8	14.8	14.6	14.0	12.7	12.2	11.2	11.3	*23*	*6.2*
Paid by employers	9.1	8.9	8.9	8.4	7.6	7.0	6.3	6.3	*16*	*3.5*
Paid by employees	5.7	5.9	5.7	5.6	5.1	5.2	4.9	5.0	*25*	*2.7*
Non-employed	0.2	0.3	0.4	0.4	0.5	0.3	0.4	0.4	*20*	*0.2*
Capital	6.9	7.0	7.0	6.9	6.3	6.5	6.5	6.5	*20*	*3.6*
Capital and business income	6.1	6.3	6.3	6.1	5.5	5.7	5.9	5.9	*14*	*3.2*
Income of corporations	3.5	3.4	3.2	3.4	3.0	3.0	3.2	3.2	*17*	*1.8*
Income of households	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	*26*	*0.0*
Income of self-employed (incl. SSC)	2.3	2.6	2.8	2.5	2.4	2.7	2.6	2.6	*4*	*1.4*
Stocks of capital / wealth	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	*25*	*0.3*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**34.1**	**33.2**	**33.2**	**33.1**	**31.6**	**31.5**	**29.4**	**29.4**	***26***	***16.1***
								% of GDP		
Of which environmental taxes	2.2	1.9	2.4	2.6	2.7	2.6	2.4	2.3	*19*	*1.2*
Energy	2.0	1.7	1.9	2.2	2.2	2.1	2.0	1.8	*13*	*1.0*
Of which transport fuel taxes	-	-	-	-	-	2.1	1.9	1.8	*8*	
Transport	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	*23*	*0.1*
Pollution/resources	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	*5*	*0.1*
D. Implicit tax rates								%		
Consumption	21.7	18.8	19.4	21.1	21.5	22.2	20.2	20.6	*16*	
Labour employed	36.3	37.1	36.7	36.1	34.5	32.9	30.5	30.9	*20*	
Capital	22.9	21.7	22.5	22.5	18.5	19.5	18.2	17.5		
Capital and business income	20.3	19.3	20.0	20.0	16.3	17.4	16.4	15.8		
Corporations	40.0	32.7	34.7	35.3	22.6	23.5	20.3	19.5		
Households	11.8	12.6	13.3	12.5	12.0	13.4	13.1	12.5		
Real GDP growth (annual rate)	1.4	3.4	4.8	4.7	5.2	6.5	8.5	10.4		
Output gap (potential)	-4.0	-4.0	-3.3	-3.0	-3.1	-2.7	-1.1	2.5		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

SLOVAKIA

Overall trends in taxation

Structure and development of tax revenues

As at 2007, the tax-to-GDP ratio (including social security contributions) stood at 29.4 % in Slovakia, a value markedly below the EU-27 average (37.5 %). The level of taxation in Slovakia (being the same as in Romania) is the lowest in the European Union.

Indirect taxes raised 11.6 % of GDP, as compared to 14.3 % of GDP for the EU-27 average. They play a much more important role in Slovakia than direct taxes, as the latter yield only around half as much revenue. Not surprisingly therefore, direct tax revenue lies well below the EU-27 average (6.1 % of GDP compared to 12.4 % of GDP). The ratio of tax revenues from social security contributions to GDP has decreased over the recent years by 2.4 percentage points from 14.1 % of GDP in 2000 to 11.7 % of GDP in 2007. This reflects a significant reduction of employers' social security contributions. Since 2005–2006, the introduction of a 'second pillar' fully funded pension scheme led to a further reduction in social security receipts, as contributions to privately managed funds are not booked as government revenue.

The central government receives less than half of overall revenue, a comparatively low share, while social security funds receive most of the remainder; their share of revenue is the second highest in the Union after France. The share of the local governments in taxes increased recently (from 1.5 % of GDP in 2004 to 3.2 % in 2007) due to the implementation of a new financing system for regional self-government from 1 January 2005.

Slovakia's tax ratio has decreased very significantly over the last decade, from 40.3 % of GDP in 1995, when it exceeded the EU-27 average by almost three points, to 29.4 % of GDP in 2007, when the ratio was more than eight points below the average. This cut in taxation by one quarter is by far the strongest in the EU-27.

Taxation of consumption, labour and capital; environmental taxation

As of 2007, the implicit tax rate (ITR) on consumption in Slovakia is below the EU-27 average (20.6 % compared with 22.2 %). After a recent decrease phase, the Slovak ITR on consumption has rebounded by some two percentage points from its 2001 fall on account of stronger VAT and excise duties revenue. The decline in consumption tax revenue in 2007 was influenced by a shift in final demand towards exports, which are not subject to consumption taxation, and by the fact that, a VAT rate for medicines and certain other medical and pharmaceutical products has been reduced to 10 % since 1 January 2007.

The implicit tax rate on labour in Slovakia is, at 30.9 % in 2007, well below the EU-27 average (34.4 %). The ratio has tended to decline over time in line with the decline in tax levels, but this process has accelerated over the last two years owing to the introduction of a 19 % flat PIT rate. One should note, however, that the introduction of a second pillar pension scheme in 2005–2006 also results, under our methodology, in a reduction of the ITR on labour, although payments to these funds have an impact on workers' disposable income which is analogous to traditional social security contributions.

The relatively low contribution of taxes on capital to total tax revenue is also reflected in the low ITR on capital, at 17.5 % in 2007. Capital taxation revenue has slightly declined since 2002 (remaining at 6.5 % level in 2005–2007. The fall of the ITR is mainly driven by the progressive decrease in the corporate income tax rate since 1999.

As of 2007, the ratio of environmental taxation stood at 2.3 % of GDP, a value slightly below the EU-27 average (2.7 %). The environmental taxation revenue has been on the decline from 2004 mainly due to shrinking revenues from energy taxation.

Current topics and prospects; policy orientation

Since 2004 Slovakia has switched over to a comprehensive flat tax system featuring a low 19 % basic rate for PIT, CIT and VAT and a wide base with a limited number of allowances. More recent tax changes following this major tax reform have generally aimed at aligning the taxable base with the accounting base. Significant amendments to the CIT rules on reserves and provisions for losses were introduced in January 2008; previously, losses on loans and receivables were fully deductible with almost no restrictions, especially in the case of bank loans. These rules have now been tightened, through introduction of time limits and prerequisites, in order to encourage a more active stance by creditors.

A reduced 10 % VAT rate was introduced in 2007. In addition, higher excise duties on electricity, coal and natural gas will be collected as from July 2008 in application of the EU energy taxation directive. Finally, in the domain of social security, besides the above mentioned introduction of a second pillar, the contribution ceilings for social insurance have been increased.

In order to mitigate the negative impact of the global financial and economic crisis, several anti-crisis measures were introduced in 2009. An employee tax credit as a form of negative income tax has been introduced and the basic allowance has been increased. While the first is a permanent measure, the latter is temporary (only for two years). In addition, the rate of contribution to the social insurance agency was decreased to 2 % for mandatory insured self-employed. Among other measures, changes in the rules on property depreciation were adopted (increase in input price for investment property depreciation, accelerated depreciation and depreciation of components).

Main features of the tax system

Personal income tax

The introduction of the flat tax rate in 2004 has superseded the previous system of progressive rates. The new tax law has scrapped the majority of exceptions, exemptions and deductions. The restriction in the number of allowances and credits to the minimum obviously contributes strongly to the transparency and simplicity of the tax system. The basic allowance increased from 19.2 to 22.5 times the minimum monthly subsistence level. As the goal of this measure was to target the tax cut on the low and middle-income class, the threshold from which the basic allowance is gradually withdrawn has been lowered, so that the high-income class will not be affected by this measure. This measure will be in force until 2010. Employee tax credit was introduced on 1 January 2009. It is a form of negative income tax which is paid to low income employees.

The PIT tax rate is 19 % of aggregate income. Income is defined broadly as any benefit in cash or in kind. Aggregate income includes income from employment, occupational pensions, business, rent, capital and other occasional activities. Capital gains are generally included in aggregate income with the exception of income from the sale of a dwelling used as a permanent residence of the taxpayer over the previous two years, and the income from the sale of other immovable property owned for at least five years; gains from the sale of movable property owned for at least five years; and gains from the sale of shares and other securities up to a total annual amount equal to five times the living minimum (€ 894.60 in 2009). No tax deductions are allowed except for deductions for contributions to supplementary pension insurance and pension savings schemes. There are two kinds of tax allowances: the basic allowance available to every taxpayer and the supplementary allowance for a spouse whose income, after deducting social security contributions, is below the basic allowance level. Additionally, a resident taxpayer is entitled to a tax credit for each child living in the same household with him if his employment or business income exceeds the amount equal to six times the minimum salary, i.e. € 1 773 for 2009. The credit per child is € 19.32 per month.

A final withholding tax of 19 % is levied on income from participation certificates, vouchers and investment coupons; interest on bank deposits and current accounts; income from private life or pension insurance and payments from the supplementary pension insurance. However, a taxpayer may opt for including such income into the aggregate income so that the tax withheld is treated as a prepayment.

Corporate taxation

The corporate tax rate was reduced from 25 % to 19 % with effect from 1 January 2004. Exceptions and exemptions such as tax holidays, tax breaks, individual tax bases and special tax rates applicable under the old tax regime have been eliminated from the corporate income tax law, providing for more transparency. A number of amendments have been made to the tax law in order to adapt it to EU regulations on direct taxation such as the Parent-Subsidiary Directive, the Merger Directive, the Interest and Royalties Directive and the Savings Directive.

Taxable income is calculated based on the income computed according to the accounting rules and is adjusted for several items for tax purposes. These include non-deductible items such as expenses related to non-taxable income, bad debts; contributions to the share capital as well as directors' remuneration and remuneration of members of the board of directors, members of the supervisory board, and members of other legal bodies if not paid in the framework of an employment relationship. For depreciation purposes, a straight-line or a specific accelerated depreciation method may be used. Capital gains are included in the company's taxable ordinary income. Income from participation certificates and interest on corporate bonds, bearer deposit certificates, deposit accounts or current bank accounts are subject to a 19 % withholding tax. This is treated as an advance payment of corporate income tax and the income is included in the taxable corporate income of resident companies. Tax losses may be carried forward for up to five years. No group taxation provisions exist; all entities are taxed separately. The thin capitalisation rules which were abolished with effect from 1 January 2004 will be reintroduced as of 1 January 2010.

VAT and excise duties

Prior to the tax reform in 2004 Slovakia applied two VAT rates: a standard rate of 20 % and a reduced rate of 14 %. The tax reform introduced a unified 19 % VAT tax rate for all goods and services as of 1 January 2004. In 2007, a 10 % reduced rate was reintroduced; it applies to medicines, certain other medical and pharmaceutical products, and, since 2008, to books.

The tax reform also introduced amendments to excise duties on mineral oils, tobacco and tobacco products, and beer in order to harmonise Slovak tax law with EU regulations. These amendments increased excise duty rates on these types of products, so that Slovak excise duties have reached the required levels earlier than negotiated in Slovakia's EU Accession Treaty.

Social contributions

Both employees and employers have to pay contributions for pension insurance (4 % and 14 % respectively), health insurance (4 % and 10 % respectively), disability insurance (both 3 %) and sick leave insurance (both 1.4 %), as well as unemployment insurance (both 1 %). Additionally, employers have to pay 0.8 % of employees' wages for accident insurance, 4.75 % to a solidarity fund and 0.25 % to the guarantee fund. A contributions ceiling applies to all types of insurance except accident insurance. Part of social contributions (nine percentage points) is accumulated in private pension funds. In 2009, the contribution ceilings for employers' and employees' social security contributions are € 2 674.90 for reserve fund as well as for pension, disability and unemployment insurance, € 2 006.17 for health insurance and € 1 003.09 for sick leave insurance and guarantee fund.

Slovenia	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	15.8	15.6	15.9	16.0	15.8	15.8	15.2	15.0	*10*	*5.2*
VAT	8.7	8.3	8.6	8.5	8.5	8.6	8.5	8.5	*7*	*2.9*
Excise duties and consumption taxes	3.0	3.4	3.4	3.4	3.4	3.3	3.3	3.3	*11*	*1.1*
Other taxes on products (incl. import duties)	1.8	1.4	1.3	1.3	1.1	0.9	0.9	1.1	*17*	*0.4*
Other taxes on production	2.3	2.5	2.5	2.8	2.8	2.9	2.5	2.1	*7*	*0.7*
Direct taxes	7.4	7.6	7.8	8.0	8.3	8.7	9.2	9.5	*18*	*3.3*
Personal income	5.6	5.7	5.7	5.7	5.7	5.5	5.8	5.7	*20*	*2.0*
Corporate income	1.2	1.3	1.6	1.7	1.9	2.8	3.0	3.4	*12*	*1.2*
Other	0.6	0.6	0.6	0.5	0.6	0.4	0.4	0.4	*20*	*0.1*
Social contributions	14.3	14.5	14.3	14.2	14.2	14.3	14.0	13.7	*5*	*4.7*
Employers´	5.5	5.5	5.4	5.4	5.4	5.6	5.5	5.4	*19*	*1.9*
Employees´	7.8	7.7	7.6	7.5	7.5	7.5	7.4	7.2	*1*	*2.5*
Self- and non-employed	1.0	1.3	1.3	1.3	1.4	1.2	1.2	1.1	*13*	*0.4*
B. Structure by level of government								% of GDP		
Central government	20.7	20.6	21.0	21.2	21.2	21.5	21.3	20.8	*17*	*7.2*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	2.7	2.8	2.8	2.9	2.9	2.8	2.9	3.4	*13*	*1.2*
Social security funds	14.1	14.4	14.1	14.1	14.1	14.1	13.9	13.6	*4*	*4.7*
EU institutions	n.a.	n.a.	n.a.	n.a.	0.2	0.3	0.3	0.4	*5*	*0.1*
C. Structure by economic function								% of GDP		
Consumption	13.9	13.4	13.7	13.8	13.6	13.4	13.2	13.3	*8*	*4.6*
Labour	20.7	21.0	20.8	20.9	20.8	20.7	20.3	19.7	*10*	*6.8*
Employed	19.9	20.1	19.9	19.9	19.8	19.8	19.4	18.8	*10*	*6.5*
Paid by employers	6.9	7.1	7.1	7.1	7.1	7.3	6.9	6.5	*14*	*2.2*
Paid by employees	13.0	13.0	12.8	12.7	12.7	12.5	12.5	12.3	*5*	*4.2*
Non-employed	0.7	0.9	0.9	1.0	1.0	0.9	0.9	0.9	*15*	*0.3*
Capital	3.0	3.3	3.5	3.5	3.9	4.7	4.9	5.3	*24*	*1.8*
Capital and business income	2.1	2.3	2.6	2.7	3.0	3.7	4.0	4.4	*22*	*1.5*
Income of corporations	1.2	1.3	1.6	1.7	1.9	2.8	3.0	3.4	*16*	*1.2*
Income of households	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3	*20*	*0.1*
Income of self-employed (incl. SSC)	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.7	*20*	*0.2*
Stocks of capital / wealth	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	*23*	*0.3*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**37.5**	**37.7**	**38.0**	**38.2**	**38.3**	**38.7**	**38.4**	**38.2**	***12***	***13.2***
								% of GDP		
Of which environmental taxes	2.9	3.3	3.3	3.3	3.3	3.2	3.0	3.0	*6*	*1.0*
Energy	2.4	2.7	2.7	2.6	2.6	2.5	2.3	2.3	*4*	*0.8*
Of which transport fuel taxes	1.8	2.2	2.2	2.2	2.2	2.1	2.1	2.2	*3*	
Transport	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	*14*	*0.2*
Pollution/resources	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	*6*	*0.1*
D. Implicit tax rates								%		
Consumption	23.5	23.0	23.9	24.0	23.9	23.6	23.8	24.1	*10*	
Labour employed	37.7	37.5	37.6	37.7	37.5	37.6	37.4	36.9	*11*	
Capital	15.7	17.5	17.4	17.0	18.9	22.1	22.0	23.1		
Capital and business income	11.1	12.4	13.1	13.2	14.7	17.7	17.9	19.2		
Corporations	19.6	22.2	24.6	21.0	23.0	33.6	30.4	32.9		
Households	6.9	7.9	7.5	7.8	8.8	7.3	8.0	7.8		
Real GDP growth (annual rate)	4.4	2.8	4.0	2.8	4.3	4.3	5.9	6.8		
Output gap (potential)	0.6	-0.6	-0.6	-1.8	-1.6	-1.3	0.2	2.3		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

SLOVENIA

Overall trends in taxation

Structure and development of tax revenues

Slovenia's total tax-to-GDP ratio (including social security contributions) amounted to 38.2 % in 2007, a value that slightly exceeds the EU average (37.5 %) and equals the euro area average (38.2 %). Compared to its neighbours, Slovenia's tax ratio lies well below Hungary's, Italy's and Austria's.

Slovenia displays a relatively high share of indirect taxes (39.2 % of total taxes). Social contributions play an important role, too, with a share of 36.0 %, i.e. 6.5 percentage points above the EU average; this share has, however, progressively decreased since 2001. Given the predominance of indirect taxes and social contributions, direct taxes yield a low share at 24.9 % of the total (EU 32.3 %). It is worth noting that employers liable for payment of social security contributions were also subject to a payroll tax (until 2008), introduced in the second half of 1996 to finance a cut of social security contributions from 42 % to 38 % of wages. As for employees' social contributions, measured as a percentage of GDP they are the highest in the EU.

Central government accounts for the largest part of tax revenue (54.5 %). Local governments collect only 9.0 % of total taxes, i.e. 2.1 percentage points below the EU average (11.1 %) and slightly above the euro area average (7.9 %).

The total tax-to-GDP ratio has fluctuated within a narrow band ever since 2000. A major change in the tax system occurred in 1999 when VAT replaced the previous sales tax; apart from a temporary increase in the transition year, however, the overall levels of indirect taxation remained roughly the same.

Taxation of consumption, labour and capital; environmental taxation

At 13.3 %, revenue from consumption taxes lies above the EU and euro area averages (12.4 % and 11.9 % of GDP, respectively). A modest decrease in revenue has taken place in the second half of the period under consideration but the ITR has varied little overall, oscillating around the 24 % mark.

In line with the overall near constancy of taxation levels, the ITR on labour has remained quite stable since 2000 at around 37 %. Given a relatively high level of employees' social security contributions, its value lies 2.5 percentage points above the EU average.

Revenues from taxes on capital overall have almost doubled since 2000; in particular, a threefold increase of revenue from taxes on income of corporations has taken place. Nevertheless, both levels remain lower than the EU average (8.0 % and 3.7 % of GDP respectively).

In 2007, environmental taxes represented 3.0 % of GDP. This share dropped by 0.3 percentage points from a 3.3 % value in 2001–2004, but remains above the EU average (2.7 %[1]). As in most countries, taxes on energy account for the lion's share of environmental tax revenues; their revenue is high also in the international comparison (Slovenia ranks fourth in the Union in this respect). Despite their lower absolute revenue, pollution/resource taxes, too, are well developed in Slovenia, taking the sixth highest level in the EU.

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1) The decline in energy tax revenues between 1998 and 2000 is essentially a statistical artefact. See Annex B, Part C — environmental taxes for details.

Current topics and prospects; policy orientation

To address the issue of the high tax burden on labour, reforms launched in 2005 started phasing out the payroll tax, which was lifted completely in 2009. These reforms also introduced a differentiation in the taxation of individual incomes according to their character; while 'active' income is still taxed at progressive rates applied to the annual tax base, 'passive' income (i.e. income from interest and dividends and capital gains) is taxed at a flat rate, as in dual income systems.

In 2006, an important reform resulted in: (i) a reduction in the number of personal income tax brackets from five to three and in the top tax rate from 50 % to 41 %; (ii) retention of schedular taxation of passive income (income from property) at a single 20 % final rate; and (iii) a gradual reduction of corporate income tax from 25 % to 20 % (by 2010). The general investment tax credit was scrapped, retaining tax relief for regional investment in R&D. The government has also been aiming at reducing the compliance burden. A new Tax Procedure Act, applicable as from January 2007, includes several measures meant to simplify tax procedures and increase the legal certainty for taxpayers. In 2008, several amendments to the personal and corporate income tax were introduced with retroactivity from January 2008. As concerns PIT, the additional general allowance was increased and different investment allowances were introduced. An investment allowance for investment in equipment or intangible assets was also introduced in the area of CIT. In 2008, the government also increased the excise duties on unleaded petrol, diesel fuel and alcohol beverages with effect from January 2009.

Main features of the tax system

Personal income tax

Each individual is taxed separately; there is no spouse or family taxation regime. The annual tax base is computed after deduction of compulsory social security contributions and certain allowances. Net 'active' income (see above) is taxed according to a progressive rate, with three brackets ranging from 16 % to 41 %. The top rate applies to income above € 14 820.83. The tax is levied at central government level, part of the revenues from the personal income tax being attributed to municipalities. There is a tax credit on pensions. Taxable income is reduced by a general allowance equivalent to € 5 113 (if active income is up to € 8 557), € 4 082 (active income between € 8 557 and € 9 897) and € 3 051 (active income over € 9 897). Other allowances apply (e.g. disabled person allowance, seniority allowance for taxpayers older than 65, family allowances for every dependent child, and other special personal allowances such as student allowance).

Dividends, interest and capital gains (non-active income) are taxed according to a flat rate. The tax rate for dividends and interest is 20 % (in 2006–2007 the tax rate for interest was 15 %). The tax rate for capital gains depends on the holding period. The capital gains tax is reduced progressively every five years of the holding period down to 0 % after 20 years.

Corporate taxation

The current corporate tax rate for the year 2009 is 21 % (reduced to not less than 10 % for companies operating in special economic zones and to 0 % for investment funds, pension funds and insurance undertakings for pension plans, under certain conditions) and will be cut further to 20 % from 2010. Companies may carry forward losses indefinitely, but carry back is not allowed. Furthermore, companies benefit from depreciation allowances on buildings (at a maximum rate of 3 %), machinery and equipment (at a maximum rate of 20 %) and from incentives on R&D activities and purchase of R&D services.

The taxable base is computed following accounting principles for business. Entertainment and supervisory board costs, as well as certain provisions, are deductible up to 50 % of the actual amount. The write-off of a receivable is allowed if recorded in the public accounts, but under strict limits. In general, capital gains from regular income are included in taxable profit and taxed at the regular tax rate. Various exemptions exist such as the participation exemption for dividends and capital gains on the alienation of shares (under special conditions). As for incentives, one fifth of the amounts spent on R&D (up to 40 % in certain regions), not exceeding the amount of the taxable base, are deductable; other incentives exist for employment of trainees and disabled persons as well as for establishment in a special economic zone. The dividend withholding tax rate is 15 % (unless a Double Taxation Treaty specifies otherwise).

VAT and excise duties

VAT was introduced on 1 July 1999 replacing the previous General Sales Tax. The current rate is 20 %. The reduced rate of 8.5 % applies to goods and services including, inter alia, foodstuffs, preparation of meals, live animals, seeds, plants; supply of water, sewage and refuse disposal; medicines and medical appliances for the disabled; passenger transport; books and periodicals; cultural and sporting events; construction, renovation and supply of housing; fertilisers and pesticides; accommodation provided in hotels and similar establishments. Slovenia has been granted a transitional period (until 31 December 2010) regarding a reduced VAT rate for the preparation of meals and for the supply of construction, renovation and maintenance work for residential housing not provided as part of social policy.

Excise duties are regulated in the Excise Duty Act, which transposes relevant EU legislation in this area. Fuel excise duties are below average EU levels, but above the EU minima. An excise duty on coal and coke was introduced and excise duties on cigarettes, mineral oil and gas were adjusted in 2005 in order to bring legislation in line with EU regulations. From 1 January 2007 excise duties are also due on electricity.

Wealth and transaction taxes

There is a real estate tax, a property tax on premises owned by individuals and a tax on boats. The tax on real estate, known as 'compensation for the use of building ground' depends on the type and location of the property. The property tax on premises depends on the type and the value of the property. The tax rate for dwellings varies from 0.1 % to 1 % of the value. The rate for business premises varies from 0.15 % to 1.25 %, that on premises used for rest and recreation is in the range of 0.2 % to 1.5 %. For business premises that are not used for attendant activities or are not rented, the tax rate is increased by 50 %. There are several exemptions to the property tax, for example for buildings of less than 160 m^2 or for premises used by the owner for business activity, or for newly constructed or renovated buildings. The tax on boats depends on the length of the boat and the power of the engine.

The inheritance and gift tax is levied at progressive rates, ranging from 5 % to 39 %. The rate depends on the relationship between the deceased/donor and the beneficiary and on the value of each beneficiary's share of the inheritance/gift. Spouses and all direct descendants are exempt.

Social contributions

Social security contributions cover pension, health, unemployment insurance and maternity leave. Employees contribute 22.1 % of their total gross wage of which the pension insurance (15.5 %) is the biggest amount. Social contributions are also payable by employers on behalf of their employees (the total rate paid by employers is 16.1 %). The taxable base for both the employer and the employee is the amount of the gross wage, which includes gross leave pay, fringe benefits and remuneration of expenses related to work above a certain threshold. Contributions are deductible both from CIT and the PIT.

Spain	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking 1)*	*€ bn*
Indirect taxes	11.9	11.5	11.6	11.9	12.2	12.6	12.7	12.0	*25*	*126.3*
VAT	6.1	5.9	5.8	6.0	6.1	6.3	6.4	6.1	*26*	*64.4*
Excise duties and consumption taxes	2.6	2.5	2.5	2.5	2.5	2.4	2.3	2.2	*24*	*23.4*
Other taxes on products (incl. import duties)	1.9	1.9	2.0	2.3	2.5	2.8	2.9	2.6	*6*	*27.2*
Other taxes on production	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	*13*	*11.4*
Direct taxes	10.5	10.4	10.8	10.5	10.6	11.4	12.2	13.4	*11*	*140.6*
Personal income	6.6	6.8	6.8	6.6	6.4	6.6	7.1	7.7	*9*	*81.3*
Corporate income	3.1	2.9	3.3	3.1	3.5	3.9	4.2	4.8	*5*	*50.1*
Other	0.8	0.8	0.7	0.8	0.8	0.8	0.9	0.9	*10*	*9.2*
Social contributions	12.0	12.2	12.1	12.2	12.2	12.1	12.1	12.2	*11*	*128.1*
Employers´	8.7	8.8	8.8	8.9	8.8	8.8	8.8	8.9	*7*	*93.4*
Employees´	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	*23*	*20.4*
Self- and non-employed	1.4	1.4	1.4	1.4	1.5	1.4	1.4	1.4	*9*	*14.3*
B. Structure by level of government								% of GDP		
Central government	16.5	16.2	13.1	12.5	12.3	12.9	13.5	14.2	*24*	*149.5*
State government 2)	2.7	2.6	6.3	6.9	7.5	7.9	8.1	8.0	*3*	*84.3*
Local government	3.1	3.0	2.9	2.8	3.0	3.1	3.2	3.1	*16*	*32.7*
Social security funds	11.7	11.8	11.8	11.9	11.8	11.8	11.8	11.9	*10*	*125.0*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*12*	*3.6*
C. Structure by economic function								% of GDP		
Consumption	9.9	9.5	9.4	9.6	9.7	9.8	9.8	9.5	*27*	*99.4*
Labour	15.9	16.2	16.3	16.2	16.0	16.2	16.4	16.9	*13*	*177.6*
Employed	14.2	14.5	14.5	14.5	14.3	14.4	14.5	14.9	*14*	*157.1*
Paid by employers	8.7	8.8	8.8	8.9	8.8	8.8	8.8	8.9	*8*	*93.4*
Paid by employees	5.5	5.7	5.7	5.6	5.5	5.6	5.7	6.1	*21*	*63.7*
Non-employed	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2.0	*8*	*20.6*
Capital	8.7	8.3	8.8	8.7	9.3	10.1	10.9	11.2	*6*	*118.0*
Capital and business income	5.9	5.6	5.9	5.7	6.0	6.5	7.1	7.8	*4*	*81.8*
Income of corporations	3.1	2.9	3.3	3.1	3.5	3.9	4.2	4.8	*5*	*50.1*
Income of households	0.8	0.8	0.7	0.7	0.7	0.8	1.1	1.2	*6*	*12.9*
Income of self-employed (incl. SSC)	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.8	*10*	*18.9*
Stocks of capital / wealth	2.8	2.8	2.9	3.0	3.3	3.6	3.8	3.4	*6*	*36.2*
Less: amounts assessed but unlikely to be collected	0.6	0.6	0.6	0.6	0.4	0.4	0.5	0.5		
TOTAL	**33.9**	**33.5**	**33.9**	**33.9**	**34.5**	**35.6**	**36.5**	**37.1**	***13***	***389.7***
								% of GDP		
Of which environmental taxes	2.2	2.1	2.1	2.1	2.0	1.9	1.9	1.8	*27*	*19.1*
Energy	1.7	1.7	1.7	1.6	1.6	1.5	1.4	1.4	*24*	*14.7*
Of which transport fuel taxes	1.5	1.4	1.5	1.4	1.4	1.3	1.2	1.2	*21*	
Transport	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	*16*	*4.3*
Pollution/resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	*20*	*0.2*
D. Implicit tax rates								%		
Consumption	15.7	15.2	15.4	15.8	16.0	16.3	16.4	15.9	*26*	
Labour employed	28.7	29.5	29.8	29.9	29.9	30.3	30.8	31.6	*17*	
Capital	29.7	28.3	30.0	30.3	32.7	36.4	40.9	42.4		
Capital and business income	20.1	18.9	20.1	19.7	21.1	23.4	26.5	29.4		
Corporations	30.7	28.5	31.4	31.2	35.2	43.5	53.3	59.7		
Households	13.6	13.1	13.0	12.5	12.4	12.6	13.7	14.7		
Real GDP growth (annual rate)	5.0	3.6	2.7	3.1	3.3	3.6	3.9	3.7		
Output gap (potential)	1.9	1.7	0.9	0.3	-0.1	-0.2	0.3	0.6		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

SPAIN

Overall trends in taxation

Structure and development of tax revenues

The total tax-to-GDP ratio was 37.1 % in 2007, 0.4 percentage points lower than the EU-27 arithmetic average; this ratio is in the low range for the euro area.

Spain collects revenues almost equally from direct taxes, social contributions and indirect taxes (respectively 13.4, 12.2 and 12.0 % GDP). Spain has the third-lowest indirect taxes collection in percentage of GDP in the EU (roughly 2.3 percentage points lower than the EU-27 average). This can partly be attributed to a standard VAT rate (16 %), which is low by EU standards and to two reduced rates (4 % and 7 %) that apply to a sizeable share of the tax base. Direct taxes and social contributions are respectively 1.0 and 1.2 percentage point higher than the EU-27 average. Spain's buoyant economic activity in the last years has boosted tax revenues. Personal income taxes have soared to 7.7 % of GDP after a trough in 2004 at 6.4 %. However, the most noticeable change has been the increase in corporate income tax receipts which reached 4.8 % of GDP in 2007 (up from 2.9 % in 2001 and 1.9 % in 1995). This is the fifth highest ratio in the EU. Social security contributions have remained stable on average over the period, with the lion's share of the burden resting on employers.

Spain has a quasi-federal tax system, with three levels of government. The central government and the social security funds collect the majority of the revenues (respectively 38.3 and 32.1 per cent of total taxes). However the financing system of the regions (*Comunidades Autónomas*) was reformed in 1997, leading to a marked increase in regional taxes as a percentage of GDP ('State' in the table). The effect, visible already from 1997 appears more clearly starting from 2002 as the State government share more than doubled to reach the current level of 8.0 % of the GDP.

Spain used to be a low-tax country, but the overall tax burden perceptibly increased between 2000 and 2007 (+ 3.2 percentage points) to come closer to the EU-27 average. Substantial fiscal consolidation was achieved since the mid-1990s, with a budget deficit declining particularly rapidly. Until 2007, tax revenues were boosted by increased VAT and CIT receipts, thanks to buoyant economic growth.

Taxation of consumption, labour and capital; environmental taxation

The ratio of consumption taxes in proportion to GDP (9.5 %) is the lowest in the EU-27, with 2.9 percentage points lower than the EU-27 average. After an increasing trend throughout the 2001–2006 period, the implicit tax rate on consumption is back to 15.9 % and remains the second-lowest in the Union after Greece as of 2007. This development mimics the one of VAT collection in percentage of GDP.

The ratio of taxes on labour income to GDP stood at 16.9 % in 2007, just 0.3 percentage points below the EU-27 average (17.2 %). However, throughout the years 2000–2007, Spain has displayed an average implicit tax rate (ITR) on labour below the EU-27 and especially the euro area average, although this difference has decreased from slightly more than seven percentage points in 2000 to 2.8 percentage points in 2007. The lowest level of the ITR was recorded in 1999 (28.3 %) as a consequence of the personal income tax reform. Subsequent increases in the ITR on labour, as seen from 2000 to 2007, could be attributed to a noticeable increase in taxable wages and salaries as a result of the strong job creation process observed in the last few years. The ITR on labour has risen again by 0.8 percentage point in 2007 to 31.6 %.

The ratio of capital taxes on GDP has increased substantially during recent years (+ 2.5 % in the 2003–2007 period). Revenue from capital taxation is well above the EU-27 average (11.2 % GDP v. 8.0 %) and the implicit tax rate on capital shows an even more dramatic trend. This can be attributed to the strong increase in tax revenues raised on capital income of corporations (+ 1.7 % of GDP in the period, an increase of more than 50 %), partly owing to strong growth, and is also reflected in the implicit tax rate on corporate income, which soared over the recent period. Similarly, the implicit tax rate on capital income of households and self-employed has been rising since 2003 to reach 14.7 %.

Environmental taxation is the lowest in the EU-27 (1.8 % of GDP). As in the majority of Member States, it is mostly concentrated on energy (1.4 % of GDP).

Current topics and prospects; policy orientation

In 2007 and 2008, the personal income and corporate income tax systems have undergone new significant reforms. The reforms were aimed at simplifying and increasing the neutrality of the tax system, and strengthening incentives for work, saving, risk-taking and investment. Throughout 2008 and 2009, several measures have been taken in relation with the global financial and economic crisis.

Main features of the tax system

Personal income tax

The personal income tax system was already simplified in 1999 and 2003. A new reform took effect from 2007. The tax scale applicable to the general component of taxable income has been reduced from five brackets to four (24 %, 28 %, 37 % and 43 %). Savings, including capital gains, are now taxed at a single flat tax rate of 18 %, regardless of how long the assets have been held. As for dividends, under certain conditions the first € 1 500 are exempt; any excess is taxed at an 18 % rate. Personal and family allowances have been increased and since 2007 are included, as a general rule, in the first income bracket, which is taxed at a zero rate. Until 2007, they were deducted from the tax base, which decreased the progressivity of the tax. In the context of measures taken to alleviate the consequences of the global financial crisis, Spain has increased tax credits, social security rebates and deadlines of payments to specific categories of workers. In addition, an additional tax credit of € 400 has been granted to working and self-employed taxpayers to support household purchasing power.

Corporate taxation

The tax rate has been reduced from 35 % to 32.5 % in 2007 and to 30 % in 2008 (from 40 % to 37.5 % and 35 % for 2007 and 2008, respectively, for entities engaging in oil exploration, research, and exploitation). For small and medium companies (those with a turnover less than € 8 million), a 25 % tax rate (applicable to the first € 120 202.41) applies. Some tax credits, including those for exports, are to be gradually phased out by 2011, 2012 or 2014. The rules regarding tax credits for reinvestment have also been revised, in particular with reference to the kind of assets involved. Capital gains on the sale of certain assets are now effectively taxed at 18 % (the same tax rate as the PIT). Finally, the R&D tax credit has been expanded to companies with more than 25 % of their research activity in another EU Member State or member of the EEA.

VAT and excise duties

The standard VAT rate is 16 %. Two reduced rates of 7 % and 4 % apply to specific categories of goods, namely, inter alia, to sports activities, food, health products, housing, entertainment services, hotels and restaurants, and agricultural services; and to some essential goods and books. In 2006, the Ecofin Council ratified the agreement to extend reduced VAT for hairdressing and building workers until the end of 2010. In the Canary Islands, a special regime is applied with a standard rate of 5 %. A special duty on imports and certain goods in the Canary Islands is also applied. The recent reform introduced a special VAT consolidation regime applicable to corporate groups, and the possibility of claiming immediate VAT refunds

Wealth and transaction taxes

Inheritance and gift taxes are levied on behalf of the 17 autonomous regions, which set their own tax rates within certain limits. If they do not, national limits apply. A tax on wealth transfers applies to rights and assets located in Spain. For the transfer of real estate, this tax is levied at different rates depending on the Autonomous Community where the land is located. If no specific rate is set, a 7 % rate is levied on the value of real estate. A 100 % tax rebate has been introduced in the wealth tax in 2008.

Local taxes

Regional governments receive a significant share of total tax revenue (33 % of personal income tax; 35 % of VAT; 40 % of excise duties on hydrocarbons, tobacco, beer and alcohol; 100 % of excise duties on electricity and car registration). Indirect tax revenues are transferred according to a territorial consumption index. Statutory personal income tax rates can be modified by the regional governments provided the structure retains progression and the number of tax brackets is unchanged. Taxes on inheritance and gift tax, registration duties and fees on lotteries and gambling are wholly assigned to territorial governments with almost complete jurisdictional powers. If the estimated expenditure exceeds potential revenues, the regional government receives a compensatory transfer from the central government. Two out of the 17 Comunidades Autónomas (Basque Country and Navarra) have a special tax regime and apply, in particular, their own personal income and corporate income taxes. For the others, fiscal revenue sharing forms the object of multi-annual agreements. The financing system of the autonomous communities (accepted only by 11) of 1997–2001 was extended to the 2002–2007 period; during 2008–2009 the system has been provisionally applied until conclusion of a new financing agreement in the Consejo de Política Fiscal y Financiera (a high-level body in charge of the decision-making process regarding financing issues and representing all the Autonomous Regions). Afterwards, the LOFCA (Ley Orgánica de Financiación de las Comunidades Autónomas) will also be reformed.

Social contributions

Each professional category has minimum and maximum contribution bases. For 2009 the maximum monthly base is € 3 166.20; the minimum monthly base varies depending on the type of work. The total rate for the general regime (including general risk, unemployment insurance and professional education training) is 6.35 % for the employees and 29.90 % for employers.

Sweden	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	16.5	16.6	16.8	16.9	16.7	16.9	17.0	17.0	*4*	*56.4*
VAT	8.7	8.8	8.9	9.0	8.9	9.2	9.1	9.2	*5*	*30.5*
Excise duties and consumption taxes	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.8	*18*	*9.2*
Other taxes on products (incl. import duties)	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	*20*	*2.5*
Other taxes on production	4.0	3.9	4.0	4.1	4.0	4.0	4.3	4.3	*1*	*14.2*
Direct taxes	22.1	19.6	17.6	18.3	19.1	19.9	19.8	19.0	*2*	*63.0*
Personal income	17.2	16.0	14.7	15.2	15.4	15.5	15.5	14.6	*2*	*48.3*
Corporate income	3.8	2.6	2.1	2.2	2.9	3.6	3.6	4.0	*6*	*13.2*
Other	1.1	1.0	0.9	0.9	0.8	0.7	0.7	0.5	*19*	*1.5*
Social contributions	13.2	13.7	13.5	13.1	12.8	12.8	12.1	12.2	*10*	*40.4*
Employers´	10.2	10.7	10.4	10.1	9.9	9.8	9.2	9.3	*5*	*30.7*
Employees´	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.7	*16*	*8.8*
Self- and non-employed	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.3	*21*	*0.9*
B. Structure by level of government								% of GDP		
Central government	30.7	28.1	26.1	26.3	26.8	27.9	27.5	26.8	*5*	*88.8*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	14.9	15.5	15.6	16.0	16.0	15.9	15.7	15.7	*1*	*52.0*
Social security funds	5.6	5.9	5.8	5.7	5.6	5.5	5.5	5.5	*22*	*18.3*
EU institutions	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	*27*	*0.7*
C. Structure by economic function								% of GDP		
Consumption	12.4	12.6	12.7	12.7	12.6	12.9	12.6	12.7	*11*	*41.9*
Labour	31.0	31.2	30.0	30.3	30.0	29.6	29.0	28.3	*1*	*93.7*
Employed	27.3	27.6	26.5	26.3	26.0	25.9	25.3	24.9	*1*	*82.4*
Paid by employers	12.9	13.4	13.2	13.0	12.7	12.6	12.4	12.4	*1*	*41.1*
Paid by employees	14.4	14.2	13.4	13.3	13.3	13.3	12.9	12.5	*4*	*41.3*
Non-employed	3.7	3.6	3.5	4.0	4.0	3.7	3.7	3.4	*2*	*11.3*
Capital	8.4	6.1	5.1	5.3	6.1	7.1	7.3	7.3	*15*	*24.1*
Capital and business income	6.3	4.3	3.3	3.5	4.3	5.4	5.6	5.8	*15*	*19.2*
Income of corporations	3.8	2.6	2.1	2.2	2.9	3.6	3.6	4.0	*6*	*13.2*
Income of households	1.7	0.9	0.6	0.6	0.7	1.0	1.3	1.2	*7*	*3.9*
Income of self-employed (incl. SSC)	0.7	0.7	0.7	0.7	0.7	0.8	0.6	0.6	*21*	*2.1*
Stocks of capital / wealth	2.1	1.9	1.8	1.8	1.8	1.7	1.8	1.5	*15*	*4.9*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**51.8**	**49.9**	**47.9**	**48.3**	**48.7**	**49.6**	**49.0**	**48.3**	***2***	***159.8***
								% of GDP		
Of which environmental taxes	2.7	2.8	2.8	2.9	2.8	2.8	2.7	2.6	*11*	*8.7*
Energy	2.4	2.4	2.5	2.5	2.4	2.4	2.3	2.2	*7*	*7.3*
Of which transport fuel taxes	-	-	1.4	1.4	1.4	1.4	1.2	1.2	*20*	
Transport	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	*17*	*1.3*
Pollution/resources	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	*16*	*0.1*
D. Implicit tax rates								%		
Consumption	26.3	26.6	26.8	26.9	26.9	27.5	27.4	27.8	*2*	
Labour employed	47.2	46.2	44.8	44.7	44.7	45.0	44.5	43.1	*2*	
Capital	43.4	34.2	29.3	30.3	28.8	35.9	29.1	35.9		
Capital and business income	32.4	23.7	19.0	20.0	20.3	27.1	22.2	28.6		
Corporations	41.0	30.8	23.5	25.3	22.7	31.7	21.7	32.8		
Households	22.7	15.9	13.6	13.6	15.2	18.7	20.5	19.4		
Real GDP growth (annual rate)	4.4	1.1	2.4	1.9	4.1	3.3	4.2	2.5		
Output gap (potential)	1.9	0.0	-0.4	-1.1	0.3	1.0	2.2	1.8		

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n.a.: not applicable, - : not available

Source: Commission services

SWEDEN

Overall trends in taxation

Structure and development of tax revenues

Swedish taxation levels are the second highest in the EU. In 2007, the tax-to-GDP ratio (including social security contributions) stood at 48.3 %, compared with 37.5 % for the EU-27 average. Compared to the neighbouring countries, the rate is marginally lower than in Denmark (48.7 %), but significantly higher than in Finland (43.0 %).

The Swedish tax system relies largely on direct taxation, in particular personal income taxation, for raising revenue. Hence, the tax mix differs quite markedly from the Union average: direct taxes account for 39.4 % of the Swedish tax revenue, while indirect taxes and social contributions respectively account for 35.3 % and 25.3 % of tax revenue. This compares to EU-27 averages of around 32.3 %, 38.4 %, and 29.5 % respectively.

The structure by level of government differs from the EU average. Social security funds account for a rather low proportion of revenues, around 40 % of the EU-27 average, while local government revenues, at 32.6 % of total tax revenues, amount to almost three times the EU average. Only Denmark has a similarly high share of local government revenue.

The overall tax burden increased by nearly four percentage points from 1995 to 2000, when it reached a peak of 51.8 % of GDP. From 2001 to 2007, however, the ratio has stayed below 50 % of GDP reaching the lowest value (47.9 %) in 2002. Changes in the overall tax-to-GDP level were largely driven by PIT and CIT revenue, which were particularly low in 2002 and rather high in 2005. Revenues from indirect taxes changed only slightly over time.

Taxation of consumption, labour and capital; environmental taxation

Revenue from consumption taxes (12.7 % of GDP) is close to the EU-27 average (12.4 %). However, the implicit tax rate on consumption was at 27.8 % in 2007, the second highest in the Union and 5.6 percentage points above the EU-27 average. There are two reasons for the high ITR: Sweden has one of the highest statutory VAT rates and above average rates for excise duties, and the Swedish share of private consumption in GDP is one of the lowest in the Union.

The ratio of taxes on labour in proportion to GDP is the highest in the Union, by a margin of over 3.5 percentage points from the second (Denmark). The ITR on labour showed an upward trend until 1998, mainly because of different fiscal measures to increase tax revenue. Since then, the implicit tax rate declined until 2003, remaining stable until 2006. In 2007, the observed rate of 43.1 % is the lowest value measured so far.

The implicit tax rate on capital of Sweden is, at 35.9 % for 2007, well above the EU-25 average (28.7 %).

During 1995–2007, revenues from capital taxation over GDP have undergone significant changes. The strong increase by around three quarters from 1995 (4.8 % of GDP) to 2000 (8.4 %), is largely due to high economic growth. Among others, it led to a strong increase in revenue from the taxation of capital gains due to the booming stock markets[1)].

1) It is not possible within national accounts to account for the capital gains part of taxable income. For this reason, the increase in the capital tax burden for Sweden is overestimated in that period.

Another explanation lies in deductible net interest payments that have diminished substantially due to dropping interest rates. As also seen in the ITR on capital, revenue from taxes on capital fell sharply up to 2002 (5.1 %) due to a slowdown in growth. In recent years, however, it has increased again because of the pickup in the economy. In 2007, revenue from taxes on capital as per cent of GDP in Sweden (7.3 %) is somewhat below the EU-27 average (8.0 %).

Environmental taxes as a proportion of GDP (2.6 %) are in line with the EU-27 average (2.7 % in 2007). Their level has been rather constant over the 1995–2007 period. Revenue from environmental taxes consists, to a relatively large extent, of energy taxes.

Current topics and prospects; policy orientation

The focus of the new government's tax policy is on improving long-run employment levels by stimulating labour supply as well as reducing unemployment, for example by introducing an in-work tax credit and through changes in the system for social security contributions. The government is also actively seeking to orient the tax system further towards supporting environmental policy goals without undermining competitiveness, e.g. by considering measures to offset the burden falling on companies affected by the EU emissions trading scheme.

In January 2009, the Budget Bill for 2009 came into force. The corporate tax rate was reduced from 28 % to 26.3 %. Furthermore, a one percentage point reduction in the rate of social security contributions for employees as well as self-employed was introduced, as well as reductions for persons aged under 26. The 3:12 rule, applicable to closely held companies was amended by reducing the amount taxed as employment income. A limitation on the interest deduction available to affiliated companies was introduced. The lower tax bracket for the central government income tax was increased. In addition, the in-work tax credit, the tax-free personal allowance for taxpayers aged over 65 and the amount of non-deductible commuting expenses were increased. A tax credit for renovations, conversions and building maintenance (for households) was also introduced.

Main features of the tax system

Personal income tax

In 1991, Sweden introduced a dual income tax system. It combines a highly progressive taxation of labour income (the top marginal tax rate was 67 %) with a 30 % flat tax on broadly defined capital income. In order to prevent income transformation, special rules have been in place for active owners of closely held companies. Accordingly, dividends and capital gains to active owners are split into capital income and earned income. However, the rules have been changed several times; the last major reform was undertaken in 2006, when the portion that could be taxed as capital income was enlarged, especially for companies with many employees.

The policy of the green tax shift, which started already in 1991 with the introduction of a carbon tax, continued in 2004 with higher taxes on energy use and lower taxes on labour, mainly through raising the basic allowance. In addition, the uniform state income tax on labour income was removed in 2004, leading to a cut by SEK 200 (€ 21) per year on all incomes. In 2007, Sweden introduced an in-work tax credit. The tax credit varies with earned income and the maximum tax credit amounts to almost SEK 12 000 (€ 1 270) per year. A higher tax credit can be received by people older than 65, with a maximum tax credit of about SEK 20 000 (€ 2 110) per year. A second step of the in-work tax credit was introduced in 2008, and a third step in 2009. Overall, the in-work tax credit represents a tax cut of SEK 60 billion between 2006 and 2009 (1.9 % of GDP).

At the central level, PIT rates of 20 % (taxable income above SEK 379 200 or € 40 000) and 25 % (taxable income above SEK 538 800 or € 58 000) apply. In addition, a local income tax applies at a rate between 28.89 % and 34.9 %.

To increase labour supply and combat black market activities, a special tax credit was introduced in July 2007 for households that purchase certain household services. The tax credit equals 50 % of labour costs of the services purchased up to a ceiling of SEK 100 000 (€ 10 800) per person and year (in 2008). Since 2008, the tax reduction is also granted for household services received as a taxable benefit from the employer.

Corporate taxation

Taxation of corporations follows the classical system. Double taxation is eliminated or reduced, in the case of corporate shareholders, by participation exemption, and in the case of individual shareholders by the relief granted for dividends paid by small companies. The corporate income tax has been imposed since 1994 at a flat rate of 28 %, which was reduced to 26.3 % in January 2009. Capital gains are taxed as regular corporate profit. Capital losses, generally deductible against profit, can normally be carried forward indefinitely.

VAT and excise duties

The standard VAT rate is 25 %. A reduced rate of 12 % applies to foodstuffs and to services related to tourism. A reduced rate of 6 % applies to domestic daily and weekly newspapers and periodicals, to domestic transportation of persons and ski-lift services, and to cinema, circus and concert tickets.

Zero-rated goods and services include prescription medicines, gold for investment purposes, and a number of financial services as well as insurance and reinsurance services.

Wealth and transaction taxes

The inheritance and gift tax was abolished as of 2005 and the wealth tax in 2007.

Concerning the tax on real estate, new rules apply as from January 2008: a municipal fee replaces the central government real estate tax. However, the central government decides on the rules. For owner-occupied houses, the fee is SEK 6 000 (€ 650) per year and limited to a maximum of 0.75 % of the assessed value. For apartment buildings, the fee is SEK 1 200 (€ 130) per flat and year and limited to 0.4 % of the assessed value of the house. As of 2008, a capital gains tax on housing of 22 % applies (previously 20 %). In the case of the selling of permanent housing and re-investment of the capital gain, a deferral of taxation is possible up to a limit of SEK 1.6 million (€ 173 000). Since 2008, a yearly interest of 0.5 % is charged.

Social contributions

Employers pay most social security contributions for employed individuals. In 2009 the total employer's contribution rate is 31.42 %. Employees pay an additional pension insurance premium of 7 % (up to a ceiling), which may be fully credited against his or her income tax liability. Self-employed taxpayers must pay their own social security contributions computed on their business income at a rate of 29.71 %, without a ceiling.

As from 2007, social security contributions are waived for persons who have been in receipt of unemployment benefit, sickness benefit, disability pension or social allowance for more than one year. From 2008 onwards, employers are repaid double the employer's contribution when employing persons who have received sickness benefits or disability pensions for more than one year. To facilitate young people's entry into the labour market, employer's social security contributions are reduced to 21.31 % (21.30 % in 2008) for employees between the age of 18 and 25. A reduction also applies to self-employed taxpayers.

A special wage tax, paid by the employer, applicable to income that does not give a right to social security benefits existed until 2008. To enhance the position of older people in the labour market, the tax was abolished for active income. However, it is still applicable to non-active income, e.g. pension contributions.

United Kingdom	2000	2001	2002	2003	2004	2005	2006	2007	2007	
A. Structure of revenues								% of GDP	*Ranking* [1]	*€ bn*
Indirect taxes	13.9	13.5	13.4	13.2	13.2	13.0	13.0	12.9	*20*	*263.4*
VAT	6.6	6.6	6.6	6.8	6.8	6.7	6.6	6.6	*24*	*134.4*
Excise duties and consumption taxes	4.0	3.8	3.7	3.6	3.6	3.4	3.2	3.2	*13*	*65.9*
Other taxes on products (incl. import duties)	1.6	1.4	1.3	1.2	1.3	1.3	1.5	1.5	*13*	*31.6*
Other taxes on production	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.5	*11*	*31.5*
Direct taxes	16.7	16.8	15.7	15.2	15.4	16.4	17.2	16.8	*5*	*344.5*
Personal income	10.6	10.6	10.2	9.8	9.8	10.2	10.4	10.5	*6*	*215.2*
Corporate income	3.3	3.4	2.7	2.6	2.8	3.2	3.8	3.2	*16*	*65.6*
Other	2.8	2.8	2.8	2.7	2.9	2.9	3.0	3.1	*1*	*63.7*
Social contributions	6.2	6.2	5.9	6.3	6.6	6.7	6.8	6.7	*24*	*137.0*
Employers´	3.5	3.5	3.3	3.5	3.6	3.7	3.7	3.7	*24*	*75.4*
Employees´	2.5	2.5	2.4	2.5	2.7	2.8	2.8	2.8	*14*	*57.3*
Self- and non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	*23*	*4.4*
B. Structure by level of government								% of GDP		
Central government	34.6	34.4	33.0	32.6	33.2	34.0	34.9	34.3	*2*	*703.5*
State government [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
Local government	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.7	*20*	*34.5*
Social security funds	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*n.a.*	*n.a.*
EU institutions	0.6	0.6	0.4	0.4	0.3	0.3	0.3	0.3	*14*	*6.9*
C. Structure by economic function								% of GDP		
Consumption	11.8	11.6	11.5	11.6	11.5	11.2	11.0	10.8	*22*	*222.3*
Labour	14.0	14.0	13.3	13.3	13.6	14.0	14.1	14.0	*19*	*287.8*
Employed	13.8	13.8	13.2	13.2	13.4	13.9	14.0	13.9	*19*	*284.0*
Paid by employers	3.5	3.5	3.3	3.5	3.6	3.7	3.7	3.7	*24*	*75.4*
Paid by employees	10.3	10.3	9.8	9.7	9.8	10.2	10.2	10.2	*9*	*208.6*
Non-employed	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	*23*	*3.8*
Capital	10.9	10.9	10.1	9.8	10.2	10.9	11.8	11.5	*3*	*234.9*
Capital and business income	6.5	6.6	5.8	5.6	5.8	6.5	7.2	6.8	*7*	*140.3*
Income of corporations	3.5	3.5	2.8	2.7	2.9	3.4	4.0	3.4	*15*	*70.2*
Income of households	1.5	1.6	1.5	1.4	1.5	1.6	1.8	2.0	*3*	*40.1*
Income of self-employed (incl. SSC)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	*12*	*30.0*
Stocks of capital / wealth	4.4	4.3	4.3	4.2	4.3	4.4	4.6	4.6	*2*	*94.6*
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
TOTAL	**36.7**	**36.4**	**34.9**	**34.7**	**35.2**	**36.1**	**36.9**	**36.3**	***17***	***744.8***
								% of GDP		
Of which environmental taxes	3.0	2.8	2.7	2.7	2.6	2.5	2.4	2.5	*15*	*50.2*
Energy	2.4	2.2	2.2	2.1	2.0	2.0	1.9	1.8	*14*	*37.5*
Of which transport fuel taxes	-	-	-	1.9	1.9	1.8	1.7	1.7	*9*	
Transport	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	*13*	*10.9*
Pollution/resources	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*9*	*1.8*
D. Implicit tax rates								%		
Consumption	19.4	19.1	19.0	19.2	19.1	18.7	18.6	18.4	*22*	
Labour employed	25.3	25.0	24.1	24.3	24.8	25.5	25.8	26.1	*24*	
Capital	44.7	45.6	41.6	36.9	38.8	41.3	44.4	42.7		
Capital and business income	26.8	27.7	24.0	21.1	22.4	24.6	27.1	25.5		
Corporations	31.0	31.8	23.9	19.4	19.9	24.5	27.7	23.2		
Households	17.1	17.6	18.2	17.4	19.1	18.7	20.4	22.5		
Real GDP growth (annual rate)	3.9	2.5	2.1	2.8	2.8	2.1	2.8	3.0		
Output gap (potential)	1.3	0.8	0.2	0.5	0.7	0.4	0.9	1.7		

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The ranking is calculated in descending order of 2006 data. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

UNITED KINGDOM

Overall trends in taxation

Structure and development of tax revenues

In 2007, the United Kingdom tax-to-GDP ratio (including social security contributions) stood at 36.3 %, a value that remains below the EU-27 average (37.5 %).

The tax structure shows a comparatively high weight of direct taxes (fifth highest ratio amongst Member States), which largely reflects a marked reliance on personal income taxes but also on a high level of direct taxes other than corporate and personal income taxes (3.1 % of GDP compared to an EU-27 average of 0.8 %). This category includes in particular council taxes on land and buildings and motor vehicle duties. After a declining trend at the dawn of the century, revenue from personal income taxes increased between 2004 and 2007 (+ 0.7 % of GDP). At the same time, corporate income taxes, which increased from 2.7 % of GDP to 3.8 % of GDP between 2002 and 2006, went back to 3.2 % of GDP in 2007. This value is below the EU-27 and EA-16 averages (respectively 3.5 % and 3.8 %). Direct taxes represent the primary source of revenues (46.3 % of the total taxes), markedly larger than indirect taxes (35.4 %), and far outweighing social contributions (18.4 %), the fourth lowest share of taxes in the EU after Denmark, Ireland and Malta.

Roughly 95 % of total revenue is raised by the central government, confirming the United Kingdom as the second most fiscally centralised Member State in the EU, after Malta.

The overall tax burden increased by two percentage points from 1995 to 2000, almost entirely due to rises in direct taxation. After that peak the tax burden tended to decline between 2000 and 2003 (– 2 percentage points) but increased again between 2003 and 2006 (+ 2.2 percentage points). It came down in 2007 at 36.3 % of GDP, about the same proportion as in 2001, slightly more than a percentage point below the EU-27 average.

Taxation of consumption, labour and capital; environmental taxation

Looking at the economic classification of taxes, taxation of consumption (10.8 % of GDP) stood at 18.4 % in 2007 when measured as a percentage of final consumption expenditure of households. This ITR sets the United Kingdom 3.8 percentage points below the EU-27 average.

As a result of relatively low social security contributions, labour taxes revenue (14.0 % of GDP) is lower than in most other European countries (EU-27 17.2 %). The ITR on labour employed is, at 26.1 %, the fourth lowest in the EU-27 and lies well below the EU-27 average (34.4 %). The index has shown recently a tendency to slightly increase since its lowest point in 2002 at 24.1 %.

Revenue from taxes on capital (11.5 % of GDP), the third highest proportion in the EU-27, is much higher than the EU-27 average (8.0 %) with all sub-categories — bar capital income of self-employed which is at par — being above this average. The high contribution of taxes on capital to total tax revenue (10.2 percentage points over the 21.3 % EU-27 average) is reflected in the relatively high implicit tax rate on capital (42.7 %). Taxes on capital stock (i.e. national domestic rates on business properties and council tax paid by owner-occupiers and tenants on the value of their dwellings) contribute substantially to the United Kingdom's relatively high tax burden on capital as they are not well captured in the capital base of the ITR.

From 1995 to 2001, both of the implicit tax rate on capital and business income and of the revenues from taxes on the stocks of capital/wealth increased. In the following years, the ITR on capital dropped somewhat before picking up again in the most recent period. The increase in the implicit tax rate on capital and business income can be partly attributed[1] to the pro-cyclical behaviour of the implicit tax rate; base widening due to economic growth and increased incorporation has to some extent offset the effects of reductions in statutory rates.

Revenues from environmental taxes in percentage of GDP have fallen compared to the beginning of the period. This is mainly due to the evolution of the collection of customs duty on hydrocarbon oils in recent years, which constitutes about 72 % of total the United Kingdom's environmental taxes (the motor vehicles duty and the air passengers' duty constitute respectively another 16 % and 6 %). Its level has risen slower than GDP since 2001 (1.8 % p.a. compared to an average 2.6 % p.a. for GDP). This explains the downwards trend which set the United Kingdom 0.2 % below the EU-27 average in 2007 against 0.1 % above it in 1995.

Current topics and prospects; policy orientation

During recent years, fiscal policy has focused on increasing the attractiveness of employment by improving the financial incentives to work and the tax system has been reorganised towards tax credits instead of direct delivery of social services. Sizeable tax measures have also been taken recently to promote a low-carbon economy by use of the tax system. Most recently, important measures have been taken to decrease taxes, in particular VAT, to alleviate the effects of the global financial crisis.

Main features of the tax structure

Personal income tax

From fiscal year 2008–2009, the basic starting marginal tax rate of 10 % has been suppressed (except for savings income) and the basic rate has been reduced from 22 % to 20 %. The higher rate remains unchanged at 40 % and is applied to income above GBP 37 400 (approx. € 41 500). The 2008 Pre-Budget Report increased personal income tax allowances by GBP 130 above indexation and made permanent increases announced in the 2008–2009 Budget. For those aged under 65 the personal income tax allowance is increased to GBP 6 475 in 2009–2010. For taxpayers aged between 65 and 74 the personal allowance is GBP 9 490 and GBP 9 180 for those over 74. From April 2010, a new higher rate (50 %) will be applied for annual incomes above GBP 150 000 and the PIT allowance will be restricted for annual incomes over GBP 100 000.

Since April 2003, two tax credits have been available: the child tax credit (CTC), which is paid on top of universal child benefit, and the working tax credit (WTC) which is intended for low-paid working adults, means-tested together with a full entitlement for families with a pre-tax income below GBP 5 225 per year[2].

Finally, the government has introduced a single capital tax gains tax rate of 18 % from 2008–2009, with an annual exempt amount of GBP 9 600 per year and has increased the inheritance tax allowance by more than statutory indexation. It stands now at GBP 312 000 for individuals. In addition, a temporary exemption from Stamp Duty Land Tax was introduced for acquisitions of residential property worth not more than GBP 175 000 for land transactions between September 2008 and end-2009.

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1) It should also be kept in mind that both the ITR on capital and capital income are biased upwards (compared to other European Union countries) because the ITR base does not capture the full extent of taxable profits of financial companies, particularly capital gains. A further reason is that the United Kingdom figures allocate all tax on occupational (second pillar) and private pension benefits (third pillar) to capital income whilst for most other Member States the second pillar is allocated to transfer income and income of the non-employed.

2) The CTC consists of a family element of GBP 545 per year (unchanged in 2009–2010) and a child element of GBP 2 235 (up from GBP 2 085) per child and per year (increased for disabled or severely disabled children). The WTC consists of a basic element (GBP 1 890 per year) and an additional amount (GBP 1 860) for couples and single parents. An extra GBP 775 is given to people working at least 30 hours a week. From April 2009, the WTC threshold is GBP 6 420 (unchanged from 2008–2009).

Corporation taxation

The corporation tax regime has been modified several times in the last decade. The main statutory rate was reduced from 33 % in 1997 to 30 % in 1999. The small company rate, which applies to firms with profits below GBP 300 000, has been reduced progressively from 24 % in 1997 to 19 % in 2006, with a marginal rate applying to profits between the small companies and main rates. An additional rate was introduced in 2000 at an initial 10 % and applied to company profits below GBP 10 000, but it was reduced to 0 % in 2002 and then completely abolished in 2005. The 2007 Budget introduced a series of measures: the corporate tax rate was reduced from 30 % to 28 % (effective April 2008), the small companies rate was raised from 19 % to 22 % phased over three years, the rates of capital allowance on plant and machinery were reduced from 25 % to 20 % and the annual investment allowance (AIA), which allows for capital spending of GBP 50 000 to be offset against profits in the first year for all firms, regardless of size and legal form was introduced. Additional measures, such as an increase in R&D tax credits and a phasing-out of capital allowances on industrial buildings, have also been adopted in recent years. The 2008 Pre-Budget Report announced that the final planned increase in the small companies' rate would be deferred for one year, leaving the rate at 21% for 2009–2010.

VAT and excise duties

The standard VAT rate is 17.5 %. However, between 1 December 2008 and 31 December 2009, the rate has been temporarily reduced to 15 %. Several reductions and exemptions apply. In particular, a reduced rate of 5 % applies, for example to fuel and power, but also on the installation of energy-saving materials. A zero-rate is used quite extensively as it applies to some food items, books, new constructions, passenger transport, some supplies to charities and to children's clothing and footwear.

Recently, important tax reforms have been implemented or planned on tobacco, fuel and other polluting activities. Specifically, tax differentials between leaded and unleaded petrol have been increased and new differentials introduced between ultra-low sulphur and standard petrol and diesel. The fuel duty rates will increase in the coming years (by 1.84 pence per litre from April 2009 and by 0.5 pence per litre above indexation in April 2010). The excise duty on heavily polluting vehicles rose to GBP 300 (from GBP 210) in 2007–2008 and to GBP 400 in 2008–2009. No duty is payable for the most environmentally friendly cars. A landfill tax was introduced in 1996 and a new climate change levy on companies for the use of gas, coal and electricity came into effect in April 2001. The rates for air passenger duty were doubled as of February 2007 to GPB 10 for European Economic Area destinations and GBP 40 for all other destinations, for the lowest class of travel. These rates are doubled for all other classes on board a flight. From November 2009, the government will restructure the air passenger duty to a four-distance band structure at 2 000 mile intervals from London with the aim of sending better environmental signals. New rates will also be introduced. Alcohol duty rates were increased by 6 % in real terms in March 2008 while the landfill tax will be increased from GBP 32 per tonne to GBP 40. Following the reduction of VAT announced in the 2008 Pre-Budget Report, duty rates were increased to maintain the overall level of taxation on alcohol constant.

Social contributions

The thresholds for paying national insurance contributions (NICs) are, since 2001, set to the level of the personal income tax allowance, both for employers and employees. The self-employed pay NICs based on similar principles. There are four contribution bands: for employees, for self-employed at GBP 2.30 per week; for voluntary contributions (fixed amount of GBP 8.10 per week); and for the self-employed with profits between GBP 5 435 and GBP 40 040 at a rate of 8 % and a lower 1 % rate for profits above that threshold. Since 2003, a pension credit ensures a minimum income to elderly people, also rewarding those who saved modest amounts for their retirement. NICs are lower (9.4 %) for those who have contracted out of the State Second Pension and moved to a private pension scheme. In 2008 the upper limit for paying NICs was increased to GBP 3 900 a year and from April 2009, it will be fully aligned with the higher rate threshold of income tax. From April 2011, the NICs will be increased by 0.5.

EUROPEAN UNION 27

ARITHMETIC AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	€ bn
Indirect taxes	13.8	13.5	13.5	13.7	13.9	14.2	14.3	14.3	1 706.1
VAT	7.4	7.3	7.4	7.4	7.6	7.9	8.0	8.0	874.8
Excise duties and consumption taxes	3.2	3.2	3.2	3.3	3.3	3.2	3.1	3.1	322.4
Other taxes on products (incl. import duties)	1.8	1.6	1.5	1.5	1.6	1.6	1.6	1.6	222.6
Other taxes on production	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	286.3
Direct taxes	12.2	12.0	11.7	11.6	11.5	11.7	11.9	12.4	1 684.0
Personal income	8.2	8.1	7.9	7.9	7.7	7.7	7.8	8.0	1 154.4
Corporate income	3.1	3.0	3.0	2.8	2.9	3.1	3.3	3.5	370.5
Other	0.9	0.8	0.8	0.9	0.9	0.9	0.8	0.8	159.1
Social contributions	11.2	11.2	11.2	11.1	11.1	11.0	10.9	11.0	1 529.9
Employers´	6.9	6.9	6.8	6.8	6.7	6.7	6.5	6.6	883.1
Employees´	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3	471.6
Self- and non-employed	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	175.3
B. Structure by level of government								% of GDP	
Central government	21.9	21.4	21.2	21.3	21.3	21.6	21.7	22.2	2 559.5
State government[1]	-	-	-	-	-	-	-	-	345.1
Local government	4.2	4.3	4.3	4.2	4.2	4.3	4.4	4.3	510.3
Social security funds	10.7	10.7	10.7	10.6	10.6	10.6	10.6	10.6	1 465.3
EU institutions	-	-	-	-	-	-	-	0.3	39.7
C. Structure by economic function								% of GDP	
Consumption	12.1	11.9	11.9	12.1	12.2	12.5	12.4	12.4	1 366.4
Labour	17.9	17.8	17.6	17.5	17.3	17.2	17.1	17.2	2 388.7
Employed	16.6	16.5	16.3	16.3	16.0	15.9	15.8	15.9	2 192.5
Paid by employers	7.3	7.3	7.2	7.2	7.1	7.1	7.0	7.0	953.4
Paid by employees	9.3	9.3	9.1	9.0	8.9	8.8	8.8	8.9	1 239.1
Non-employed	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	196.2
Capital	7.3	7.1	6.9	6.8	7.0	7.3	7.6	8.0	1 164.8
Capital and business income	5.4	5.2	5.1	5.0	5.1	5.3	5.6	6.0	809.8
Income of corporations	3.2	3.1	3.1	3.0	3.0	3.2	3.4	3.7	425.5
Income of households	0.7	0.6	0.6	0.6	0.6	0.7	0.8	0.8	128.3
Income of self-employed (incl. SSC)	1.5	1.5	1.4	1.4	1.5	1.5	1.5	1.5	255.9
Stocks of capital / wealth	1.9	1.8	1.8	1.8	1.9	2.0	2.0	2.0	355.0
TOTAL	37.2	36.6	36.3	36.4	36.4	36.9	37.0	37.5	4 908.4
								% of GDP	
Of which environmental taxes	2.8	2.7	2.7	2.8	2.9	2.8	2.7	2.7	302.9
Energy	2.0	1.9	1.9	2.0	2.1	2.0	1.9	1.9	219.1
Of which transport fuel taxes	-	-	-	-	-	-	-	-	
Transport	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	71.7
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	12.1
D. Implicit tax rates								%	
Consumption	20.9	20.4	20.7	21.1	21.4	21.9	22.0	22.2	
Labour employed	35.9	35.5	35.1	35.0	34.8	34.5	34.4	34.4	
Capital	-	-	-	-	-	-	-	-	
Capital and business income	-	-	-	-	-	-	-	-	
Corporations	-	-	-	-	-	-	-	-	
Households	-	-	-	-	-	-	-	-	
Real GDP growth (annual rate)	3.9	2.0	1.2	1.3	2.5	2.0	3.1	2.9	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

EUROPEAN UNION 27

GDP-WEIGHTED AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	€ bn
Indirect taxes	13.8	13.6	13.6	13.6	13.6	13.7	13.9	13.8	*1 706.1*
VAT	7.0	6.8	6.8	6.8	6.8	6.9	7.0	7.1	*874.8*
Excise duties and consumption taxes	3.0	2.9	3.0	3.0	2.9	2.8	2.7	2.6	*322.4*
Other taxes on products (incl. import duties)	1.7	1.6	1.6	1.6	1.7	1.7	1.8	1.8	*222.6*
Other taxes on production	2.3	2.3	2.3	2.2	2.2	2.3	2.4	2.3	*286.3*
Direct taxes	13.9	13.5	13.0	12.7	12.7	12.9	13.4	13.6	*1 684.0*
Personal income	9.8	9.7	9.4	9.2	9.0	9.1	9.2	9.4	*1 154.4*
Corporate income	2.8	2.6	2.3	2.2	2.4	2.6	3.0	3.0	*370.5*
Other	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3	*159.1*
Social contributions	12.7	12.7	12.6	12.8	12.7	12.6	12.5	12.4	*1 529.9*
Employers´	7.3	7.2	7.2	7.3	7.2	7.2	7.2	7.2	*883.1*
Employees´	4.1	4.0	3.9	4.0	3.9	3.9	3.9	3.8	*471.6*
Self- and non-employed	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.4	*175.3*
B. Structure by level of government								% of GDP	
Central government	21.5	20.9	20.3	19.9	20.1	20.3	20.6	20.7	*2 559.5*
State government[1)]	-	-	-	-	-	-	-	-	*345.1*
Local government	3.9	3.8	3.9	3.9	4.0	4.1	4.2	4.1	*510.3*
Social security funds	14.6	14.5	14.5	14.6	14.3	14.3	14.4	14.2	*1 465.3*
EU institutions	-	-	-	-	-	-	-	0.3	*39.7*
C. Structure by economic function								% of GDP	
Consumption	11.4	11.1	11.1	11.1	11.1	11.1	11.1	11.1	*1 366.4*
Labour	20.3	20.1	19.9	20.0	19.6	19.5	19.4	19.4	*2 388.7*
Employed	18.7	18.5	18.3	18.3	17.9	17.9	17.8	17.8	*2 192.5*
Paid by employers	7.8	7.8	7.8	7.9	7.8	7.8	7.7	7.7	*953.4*
Paid by employees	10.9	10.7	10.5	10.4	10.1	10.1	10.1	10.0	*1 239.1*
Non-employed	1.6	1.6	1.6	1.7	1.7	1.7	1.6	1.6	*196.2*
Capital	9.0	8.5	8.1	8.1	8.3	8.7	9.3	9.4	*1 164.8*
Capital and business income	6.2	5.8	5.4	5.4	5.5	5.8	6.4	6.6	*809.8*
Income of corporations	3.2	3.0	2.7	2.6	2.8	3.0	3.4	3.4	*425.5*
Income of households	0.9	0.8	0.8	0.8	0.8	0.9	1.0	1.0	*128.3*
Income of self-employed (incl. SSC)	2.1	2.0	2.0	2.0	1.9	2.0	2.0	2.1	*255.9*
Stocks of capital / wealth	2.8	2.7	2.7	2.7	2.8	2.8	2.9	2.9	*355.0*
TOTAL	**40.6**	**39.7**	**39.0**	**39.0**	**38.9**	**39.2**	**39.7**	**39.8**	***4 908.4***
								% of GDP	
Of which environmental taxes	2.7	2.7	2.7	2.7	2.7	2.6	2.5	2.5	*302.9*
Energy	2.1	2.0	2.0	2.0	2.0	1.9	1.9	1.8	*219.1*
Of which transport fuel taxes	-	-	-	-	-	-	-	-	
Transport	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	*71.7*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*12.1*
D. Implicit tax rates								%	
Consumption	20.0	19.6	19.6	19.6	19.7	19.7	19.8	20.0	
Labour employed	37.2	36.8	36.4	36.5	36.2	36.2	36.4	36.5	
Capital	-	-	-	-	-	-	-	-	
Capital and business income	-	-	-	-	-	-	-	-	
Corporations	-	-	-	-	-	-	-	-	
Households	-	-	-	-	-	-	-	-	
Real GDP growth (annual rate)	3.9	2.0	1.2	1.3	2.5	2.0	3.1	2.9	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

EUROPEAN UNION 25

ARITHMETIC AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	*€ bn*
Indirect taxes	13.8	13.5	13.6	13.7	13.9	14.1	14.1	14.1	*1 684.8*
VAT	7.3	7.2	7.3	7.4	7.5	7.7	7.8	7.8	*861.2*
Excise duties and consumption taxes	3.2	3.1	3.1	3.2	3.2	3.2	3.0	3.0	*316.9*
Other taxes on products (incl. import duties)	1.8	1.6	1.6	1.6	1.6	1.6	1.7	1.7	*221.5*
Other taxes on production	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	*285.2*
Direct taxes	12.6	12.4	12.2	12.0	11.9	12.2	12.4	12.8	*1 673.5*
Personal income	8.5	8.5	8.3	8.3	8.1	8.1	8.2	8.4	*1 149.4*
Corporate income	3.1	3.0	3.0	2.8	2.9	3.1	3.3	3.6	*365.7*
Other	0.9	0.8	0.9	0.9	0.9	1.0	0.9	0.8	*158.4*
Social contributions	11.2	11.3	11.2	11.2	11.2	11.1	11.1	11.1	*1 515.2*
Employers´	6.8	6.8	6.8	6.8	6.7	6.7	6.6	6.6	*873.8*
Employees´	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.3	*466.8*
Self- and non-employed	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	*174.6*
B. Structure by level of government								% of GDP	
Central government	22.3	21.8	21.7	21.6	21.5	21.8	22.0	22.5	*2 537.9*
State government[1]	6.4	6.4	7.1	7.3	7.4	7.5	7.6	7.7	*345.1*
Local government	4.3	4.3	4.2	4.3	4.3	4.4	4.4	4.3	*500.7*
Social security funds	10.7	10.7	10.7	10.7	10.7	10.6	10.7	10.7	*1 450.7*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*39.2*
C. Structure by economic function								% of GDP	
Consumption	12.0	11.8	11.9	12.0	12.1	12.3	12.2	12.2	*1 346.4*
Labour	18.2	18.2	18.0	18.0	17.7	17.6	17.6	17.7	*2 370.6*
Employed	16.9	16.9	16.7	16.6	16.4	16.3	16.2	16.3	*2 174.9*
Paid by employers	7.3	7.3	7.3	7.2	7.1	7.1	7.1	7.1	*944.1*
Paid by employees	9.6	9.6	9.4	9.4	9.2	9.2	9.2	9.2	*1 230.7*
Non-employed	1.3	1.3	1.3	1.4	1.3	1.3	1.3	1.3	*195.8*
Capital	7.5	7.2	7.1	7.0	7.2	7.5	7.8	8.2	*1 156.4*
Capital and business income	5.5	5.3	5.2	5.1	5.1	5.5	5.8	6.1	*803.2*
Income of corporations	3.3	3.1	3.1	3.0	3.0	3.2	3.4	3.7	*420.7*
Income of households	0.7	0.6	0.6	0.6	0.6	0.7	0.8	0.9	*127.3*
Income of self-employed (incl. SSC)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.6	*255.2*
Stocks of capital / wealth	2.0	1.9	1.9	1.9	2.0	2.1	2.1	2.1	*353.2*
TOTAL	**37.6**	**37.1**	**36.9**	**36.9**	**36.9**	**37.3**	**37.5**	**38.0**	***4 862.1***
								% of GDP	
Of which environmental taxes	2.8	2.8	2.8	2.8	2.9	2.8	2.8	2.7	*299.4*
Energy	1.9	1.9	1.9	2.0	2.0	2.0	1.9	1.8	*216.1*
Of which transport fuel taxes	-	-	-	-	1.6	1.5	1.5	1.5	
Transport	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	*71.2*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	*12.1*
D. Implicit tax rates								%	
Consumption	21.1	20.7	21.0	21.2	21.5	21.9	22.0	22.2	
Labour employed	35.9	35.7	35.4	35.2	34.9	34.7	34.8	34.8	
Capital	25.5	24.3	23.6	23.6	24.0	25.2	25.7	28.7	
Capital and business income	18.5	17.5	16.8	16.7	17.1	18.2	18.7	21.1	
Corporations	24.7	23.7	22.6	20.9	20.2	21.9	22.5	25.5	
Households	11.3	10.5	10.7	11.1	11.9	12.9	12.6	13.8	
Real GDP growth (annual rate)	3.9	2.0	1.2	1.3	2.4	2.0	3.1	2.9	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

EUROPEAN UNION 25

GDP-WEIGHTED AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	*€ bn*
Indirect taxes	13.8	13.7	13.6	13.6	13.6	13.7	13.9	13.8	*1 684.8*
VAT	7.0	6.8	6.8	6.8	6.8	6.9	7.0	7.1	*861.2*
Excise duties and consumption taxes	3.0	2.9	3.0	3.0	2.9	2.8	2.7	2.6	*316.9*
Other taxes on products (incl. import duties)	1.7	1.6	1.6	1.6	1.7	1.7	1.8	1.8	*221.5*
Other taxes on production	2.3	2.3	2.3	2.3	2.3	2.3	2.4	2.3	*285.2*
Direct taxes	14.0	13.6	13.0	12.8	12.7	13.0	13.5	13.7	*1 673.5*
Personal income	9.8	9.7	9.5	9.3	9.0	9.1	9.3	9.4	*1 149.4*
Corporate income	2.8	2.6	2.3	2.2	2.4	2.6	3.0	3.0	*365.7*
Other	1.4	1.2	1.2	1.4	1.3	1.3	1.3	1.3	*158.4*
Social contributions	12.7	12.7	12.6	12.8	12.7	12.6	12.5	12.4	*1 515.2*
Employers´	7.3	7.2	7.2	7.3	7.3	7.2	7.2	7.2	*873.8*
Employees´	4.1	4.0	3.9	4.0	3.9	3.9	3.9	3.8	*466.8*
Self- and non-employed	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.4	*174.6*
B. Structure by level of government								% of GDP	
Central government	21.5	21.0	20.3	20.0	20.1	20.3	20.7	20.8	*2 537.9*
State government[1)]	7.8	7.3	7.8	7.9	8.0	8.0	8.3	8.5	*345.1*
Local government	3.9	3.8	3.9	3.9	4.0	4.1	4.1	4.1	*500.7*
Social security funds	14.6	14.6	14.5	14.6	14.3	14.3	14.4	14.3	*1 450.7*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*39.2*
C. Structure by economic function								% of GDP	
Consumption	11.4	11.1	11.1	11.1	11.1	11.0	11.0	11.0	*1 346.4*
Labour	20.4	20.2	20.0	20.0	19.6	19.6	19.5	19.4	*2 370.6*
Employed	18.7	18.6	18.3	18.3	18.0	17.9	17.9	17.8	*2 174.9*
Paid by employers	7.8	7.8	7.8	7.9	7.8	7.8	7.8	7.7	*944.1*
Paid by employees	10.9	10.8	10.5	10.4	10.2	10.1	10.1	10.1	*1 230.7*
Non-employed	1.6	1.6	1.6	1.7	1.7	1.7	1.6	1.6	*195.8*
Capital	9.0	8.5	8.1	8.1	8.3	8.7	9.4	9.5	*1 156.4*
Capital and business income	6.2	5.9	5.4	5.4	5.5	5.8	6.4	6.6	*803.2*
Income of corporations	3.2	3.0	2.7	2.6	2.8	3.0	3.4	3.5	*420.7*
Income of households	0.9	0.8	0.8	0.8	0.8	0.9	1.0	1.0	*127.3*
Income of self-employed (incl. SSC)	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	*255.2*
Stocks of capital / wealth	2.8	2.7	2.7	2.7	2.8	2.9	3.0	2.9	*353.2*
TOTAL	**40.6**	**39.8**	**39.1**	**39.1**	**39.0**	**39.3**	**39.9**	**39.9**	***4 862.1***
								% of GDP	
Of which environmental taxes	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.5	*299.4*
Energy	2.1	2.0	2.0	2.0	2.0	1.9	1.9	1.8	*216.1*
Of which transport fuel taxes	-	-	-	-	1.6	1.5	1.5	1.4	
Transport	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	*71.2*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*12.1*
D. Implicit tax rates								%	
Consumption	20.1	19.6	19.7	19.6	19.7	19.7	19.8	20.0	
Labour employed	37.2	36.8	36.4	36.6	36.2	36.3	36.4	36.6	
Capital	33.1	31.3	30.0	29.2	29.9	31.2	33.0	34.2	
Capital and business income	22.8	21.2	19.7	19.2	19.6	20.7	22.3	23.4	
Corporations	27.6	28.4	25.1	23.1	23.2	25.2	28.7	30.5	
Households	14.7	14.0	14.0	14.2	14.7	15.1	15.6	16.5	
Real GDP growth (annual rate)	3.9	2.0	1.2	1.3	2.4	2.0	3.1	2.9	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

EURO AREA 16

ARITHMETIC AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	€ bn
Indirect taxes	13.8	13.5	13.5	13.7	13.9	14.1	14.1	14.1	*1 234.3*
VAT	7.0	7.0	7.1	7.2	7.3	7.5	7.6	7.6	*621.1*
Excise duties and consumption taxes	3.0	2.9	3.0	3.0	3.1	3.0	2.9	2.8	*209.3*
Other taxes on products (incl. import duties)	2.1	1.9	1.8	1.8	1.9	1.9	2.0	2.0	*175.2*
Other taxes on production	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	*228.6*
Direct taxes	12.4	12.2	12.0	11.7	11.4	11.7	11.9	12.5	*1 140.4*
Personal income	7.8	7.8	7.6	7.5	7.3	7.4	7.5	7.7	*794.2*
Corporate income	3.6	3.4	3.4	3.1	3.1	3.3	3.4	3.8	*258.1*
Other	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	*88.1*
Social contributions	11.9	11.9	11.9	12.0	11.9	11.9	11.7	11.7	*1 251.5*
Employers´	6.5	6.6	6.6	6.6	6.6	6.5	6.5	6.5	*721.3*
Employees´	4.0	4.0	4.0	4.0	4.0	3.9	3.9	3.9	*373.5*
Self- and non-employed	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4	*156.8*
B. Structure by level of government								% of GDP	
Central government	21.6	21.3	21.0	20.9	20.8	20.9	21.0	21.5	*1 533.5*
State government[1)]	6.4	6.4	7.1	7.3	7.4	7.5	7.6	7.7	*345.1*
Local government	3.0	3.0	3.0	2.9	2.9	3.1	3.1	3.2	*357.3*
Social security funds	12.3	12.3	12.4	12.5	12.4	12.4	12.4	12.4	*1 361.3*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*29.0*
C. Structure by economic function								% of GDP	
Consumption	11.8	11.6	11.7	11.8	11.9	12.0	11.9	11.9	*963.1*
Labour	17.7	17.8	17.7	17.7	17.5	17.4	17.3	17.3	*1 832.5*
Employed	16.3	16.4	16.3	16.3	16.1	16.0	15.9	15.9	*1 666.0*
Paid by employers	7.0	7.1	7.1	7.1	7.1	7.0	7.0	7.0	*779.8*
Paid by employees	9.4	9.3	9.2	9.2	9.0	9.0	8.9	9.0	*886.2*
Non-employed	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	*166.5*
Capital	8.5	8.2	8.1	7.9	7.9	8.2	8.5	9.1	*830.6*
Capital and business income	6.3	6.2	6.0	5.8	5.7	5.9	6.2	6.8	*592.7*
Income of corporations	3.7	3.6	3.6	3.3	3.2	3.4	3.6	4.0	*308.3*
Income of households	0.7	0.8	0.7	0.7	0.7	0.7	0.9	1.0	*80.6*
Income of self-employed (incl. SSC)	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.8	*203.8*
Stocks of capital / wealth	2.2	2.1	2.0	2.1	2.2	2.3	2.3	2.3	*238.0*
TOTAL	37.9	37.6	37.4	37.4	37.2	37.6	37.7	38.2	*3 616.6*
								% of GDP	
Of which environmental taxes	2.8	2.7	2.8	2.8	2.9	2.8	2.7	2.6	*210.0*
Energy	1.8	1.8	1.8	1.9	1.9	1.9	1.8	1.7	*151.6*
Of which transport fuel taxes	-	-	-	1.6	1.6	1.5	1.5	1.5	
Transport	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	*52.1*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*6.3*
D. Implicit tax rates								%	
Consumption	20.5	20.1	20.5	20.7	21.1	21.3	21.4	21.5	
Labour employed	34.6	34.5	34.2	34.3	34.1	34.1	34.2	34.3	
Capital	27.3	26.3	25.5	25.2	25.0	25.9	26.9	29.8	
Capital and business income	20.3	19.6	18.7	18.2	17.8	18.5	19.5	22.0	
Corporations	26.5	25.7	25.4	23.4	22.3	23.9	25.2	28.7	
Households	12.2	12.3	12.5	12.6	12.0	12.1	12.9	14.5	
Real GDP growth (annual rate)	3.9	1.9	0.9	0.8	2.1	1.7	2.9	2.6	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

EURO AREA 16

GDP-WEIGHTED AVERAGES

	2000	2001	2002	2003	2004	2005	2006	2007	Revenue in 2007
A. Structure of revenues								% of GDP	€ bn
Indirect taxes	13.8	13.5	13.5	13.5	13.5	13.7	13.9	13.8	*1 234.3*
VAT	6.9	6.8	6.7	6.6	6.6	6.7	6.8	7.0	*621.1*
Excise duties and consumption taxes	2.7	2.7	2.7	2.8	2.6	2.5	2.5	2.4	*209.3*
Other taxes on products (incl. import duties)	1.7	1.7	1.7	1.7	1.8	1.9	2.0	2.0	*175.2*
Other taxes on production	2.5	2.4	2.4	2.4	2.4	2.5	2.6	2.6	*228.6*
Direct taxes	12.9	12.5	12.1	11.9	11.7	11.8	12.3	12.7	*1 140.4*
Personal income	9.2	9.1	8.9	8.7	8.4	8.5	8.7	8.9	*794.2*
Corporate income	2.6	2.4	2.2	2.0	2.2	2.4	2.7	2.9	*258.1*
Other	1.1	1.0	0.9	1.1	1.0	1.0	1.0	1.0	*88.1*
Social contributions	14.6	14.4	14.4	14.5	14.3	14.2	14.2	14.0	*1 251.5*
Employers´	8.2	8.2	8.2	8.3	8.2	8.1	8.1	8.1	*721.3*
Employees´	4.6	4.5	4.4	4.4	4.3	4.3	4.2	4.2	*373.5*
Self- and non-employed	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	*156.8*
B. Structure by level of government								% of GDP	
Central government	17.9	17.5	16.9	16.7	16.7	16.7	17.0	17.2	*1 533.5*
State government[1)]	7.8	7.3	7.8	7.9	8.0	8.0	8.3	8.5	*345.1*
Local government	3.7	3.7	3.6	3.7	3.8	3.9	3.9	4.0	*357.3*
Social security funds	15.5	15.4	15.4	15.5	15.2	15.2	15.4	15.2	*1 361.3*
EU institutions	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	*29.0*
C. Structure by economic function								% of GDP	
Consumption	11.1	10.9	10.8	10.7	10.7	10.7	10.8	10.8	*963.1*
Labour	21.5	21.3	21.2	21.2	20.7	20.6	20.5	20.5	*1 832.5*
Employed	19.6	19.4	19.3	19.3	18.8	18.7	18.6	18.6	*1 666.0*
Paid by employers	8.8	8.8	8.8	8.9	8.8	8.7	8.7	8.7	*779.8*
Paid by employees	10.8	10.6	10.5	10.4	10.0	9.9	9.9	9.9	*886.2*
Non-employed	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	*166.5*
Capital	8.7	8.3	7.9	7.9	8.1	8.4	9.0	9.3	*830.6*
Capital and business income	6.2	5.9	5.5	5.5	5.5	5.7	6.3	6.6	*592.7*
Income of corporations	3.1	2.9	2.7	2.6	2.7	2.9	3.3	3.5	*308.3*
Income of households	0.8	0.7	0.7	0.7	0.6	0.7	0.8	0.9	*80.6*
Income of self-employed (incl. SSC)	2.3	2.2	2.1	2.2	2.1	2.1	2.2	2.3	*203.8*
Stocks of capital / wealth	2.5	2.4	2.5	2.5	2.6	2.6	2.7	2.7	*238.0*
TOTAL	**41.2**	**40.3**	**39.8**	**39.8**	**39.5**	**39.6**	**40.3**	**40.4**	***3 616.6***
								% of GDP	
Of which environmental taxes	2.6	2.6	2.6	2.7	2.6	2.5	2.5	2.4	*210.0*
Energy	2.0	1.9	1.9	2.0	1.9	1.9	1.8	1.7	*151.6*
Of which transport fuel taxes	-	-	-	1.6	1.5	1.5	1.4	1.4	
Transport	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	*52.1*
Pollution/resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	*6.3*
D. Implicit tax rates								%	
Consumption	19.6	19.2	19.2	19.1	19.1	19.2	19.4	19.6	
Labour employed	39.5	39.1	38.9	38.9	38.5	38.4	38.5	38.7	
Capital	30.5	28.5	27.8	27.8	28.1	28.9	31.0	32.1	
Capital and business income	21.8	20.0	19.0	18.9	18.9	19.4	21.4	22.6	
Corporations	25.5	27.1	25.4	24.2	24.4	25.4	30.0	33.1	
Households	13.7	13.3	13.2	13.6	12.9	13.1	13.8	14.3	
Real GDP growth (annual rate)	3.9	1.9	0.9	0.8	2.1	1.7	2.9	2.6	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

Norway	2000	2001	2002	2003	2004	2005	2006	2007	2007
A. Structure of revenues								% of GDP	€ bn
Indirect taxes	13.6	13.4	13.4	13.0	12.8	12.2	12.3	12.6	35.8
VAT	8.4	8.4	8.5	8.2	8.1	7.9	8.0	8.3	23.5
Excise duties and consumption taxes	2.8	2.7	2.7	2.7	2.4	2.3	2.1	2.1	6.0
Other taxes on products (incl. import duties)	1.9	1.8	1.7	1.6	1.8	1.6	1.6	1.6	4.6
Other taxes on production	0.5	0.6	0.5	0.5	0.5	0.5	0.6	0.6	1.6
Direct taxes	20.1	20.2	19.8	19.5	21.1	22.4	23.0	22.0	62.4
Personal income	10.3	10.4	10.7	10.5	10.3	9.7	9.1	9.6	27.4
Corporate income[1]	8.9	8.9	8.1	8.0	9.8	11.8	12.9	11.3	32.2
Other	0.9	0.9	1.0	1.0	1.0	1.0	0.9	1.0	2.8
Social contributions	8.9	9.2	9.9	9.8	9.4	8.9	8.7	9.1	25.7
Employers´	5.3	5.6	5.9	5.9	5.7	5.4	5.3	5.5	15.7
Employees´	3.6	3.7	3.9	3.9	3.7	3.5	3.4	3.5	10.0
Self- and non-employed	-	-	-	-	-	-	-	-	
B. Structure by level of government								% of GDP	
Central government	27.3	26.6	27.6	26.3	28.0	28.8	29.7	29.1	82.7
State government[2)]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	6.4	7.0	5.6	6.2	5.9	5.8	5.6	5.5	15.5
Social security funds	8.9	9.2	9.9	9.8	9.4	8.9	8.7	9.1	25.7
EU institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C. Structure by economic function								% of GDP	
Consumption	-	-	12.8	12.4	12.2	11.7	11.7	12.0	34.1
Labour	-	-	19.0	18.8	18.2	17.0	16.5	17.3	49.0
Employed	-	-	17.9	17.8	17.2	16.0	15.6	16.3	46.3
Paid by employers	-	-	6.0	5.9	5.7	5.4	5.4	5.5	15.8
Paid by employees	-	-	12.0	11.9	11.5	10.6	10.2	10.8	30.6
Non-employed	-	-	1.0	1.0	1.0	0.9	0.9	1.0	2.7
Capital	-	-	11.3	11.0	12.9	14.8	15.8	14.3	40.8
Capital and business income	-	-	6.1	5.7	6.7	7.5	8.0	7.6	21.6
Income of corporations[1]	-	-	4.5	4.2	5.2	5.9	6.7	6.1	17.5
Income of households	-	-	0.6	0.6	0.6	0.6	0.7	0.7	2.0
Income of self-employed (incl. SSC)	-	-	1.0	0.9	0.9	1.0	0.7	0.8	2.1
Stocks of capital / wealth	-	-	5.2	5.3	6.2	7.3	7.7	6.7	19.2
Less: amounts assessed but unlikely to be collected	-	-	0.0	0.0	0.0	0.0	0.0	0.0	
TOTAL	42.6	42.9	43.1	42.3	43.3	43.5	44.0	43.6	123.9
								% of GDP	
Of which environmental taxes	-	-	3.3	3.2	3.2	3.0	3.0	2.9	8.2
Energy	-	-	1.7	1.6	1.5	1.4	1.3	1.3	3.6
Of which transport fuel taxes	-	-	-	-	0.9	0.9	0.8	0.8	
Transport	-	-	1.3	1.3	1.4	1.4	1.4	1.3	3.8
Pollution/resources	-	-	0.3	0.3	0.3	0.2	0.3	0.3	0.8
D. Implicit tax rates								%	
Consumption	-	-	29.3	27.9	28.2	28.8	29.9	30.3	
Labour employed	-	-	38.7	39.0	39.2	38.5	37.9	37.8	
Capital	-	-	41.5	37.9	40.5	40.9	43.2	41.8	
Capital and business income	-	-	22.5	19.7	21.0	20.7	22.0	22.2	
Corporations	-	-	21.6	19.2	20.6	19.4	21.4	20.6	
Households	-	-	17.4	14.2	14.6	14.4	24.2	28.7	
Real GDP growth (annual rate)	3.3	2.0	1.5	1.0	3.9	2.7	2.3	3.1	
Output gap (potential)	-	-	-	-	-	-	-	-	

See Annex B for explanatory notes. For classification of taxes please visit: http://ec.europa.eu/taxtrends

1) The difference between the revenue from "corporate income" taxes in part A of the table and that from "income of corporations" in part C is mainly due to the exclusion from the latter of the special tax on petroleum income, which is booked under stocks of capital/wealth.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a.: not applicable, - : not available

Source: Commission services

NORWAY

Overall trends in taxation

Structure and development of tax revenues

Norway's total tax-to-GDP ratio amounted to 43.6 % in 2007; a value which exceeds the weighted European Union average by almost four percentage points. Compared with other Nordic countries, Norway's ratio is slightly higher than Finland's, but well below the Danish and Swedish level. The level and structure of revenues in Norway are clearly influenced by the important role played by oil and gas extraction in the economy.

The Norwegian tax system is characterised by a high share of direct taxes, accounting in 2007 for 50.4 % of revenue, i.e. 16.1 percentage points above the EU-27 weighted average; amongst EU countries, only Denmark displays a higher share of direct tax revenues at 61.2 %. The high revenue from direct taxes is attributable in particular to the corporate tax which yields, with 11.3 % of GDP, almost four times the EU-27 weighted average. Note that this is the result of the statistical classification of the special tax on petroleum income, which is considered as corporate tax revenue alongside the ordinary corporate income tax, thereby doubling its revenue. Revenues from indirect taxes and from social contributions correspondingly cover a smaller share of budgetary revenue; they are also lower than the EU average in terms of their ratio to GDP. Indirect taxes, standing at 12.6 % of GDP, are slightly below EU-27 weighted average (13.8 % of GDP) mainly due to below average revenue from excise duties (2.1 % of GDP) and other taxes on production (0.6 % of GDP).

In 2007, 66.7 % of taxes were paid to the central government, while local government (municipalities and counties) received 12.5 % of the total; a share somewhat above the EU weighted average (10.4 %). Social security funds receive a relatively low share of government receipts, 20.8 % compared with 35.2 % in the EU-27 weighted average.

The overall tax ratio has increased by one percentage point since 2000. While direct taxes from personal income relative to GDP have decreased slightly, taxes on corporate income have increased considerably. This is mainly due to a sharp increase in petroleum tax revenue, which has more than doubled since 2000. While indirect taxes have followed a slight downward trend, social security contributions have hardly changed as compared to 2000.

Taxation of consumption, labour and capital; environmental taxes

Revenue from taxation of consumption, at 12.0 % of GDP, has been on a slight downward trend since 2002 (12.8 % of GDP), only reversed in 2007. Current levels are slightly above the EU-27 weighted average (11.1 % of GDP). The ITR on consumption (30.3 % in 2007), however, is well above the EU-27 weighted average (20.0 %), only comparable to those of the other Nordic countries, and has been increasing since 2003. This difference in ratios is due to a high VAT rate and a remarkably low share of the final consumption expenditure of households when compared to Norway's GDP (about 41 %).

Taxation of labour has been on the decline since 2002 in revenue terms, except for 2007, when the surtax on personal income tax was increased. The ITR on labour has been on a downward trend since 2004. The value of 37.8 % recorded in 2007 is between the EU-27 weighted average and the euro area average (36.5 % and 38.7 %, respectively). It is just above the Danish value but significantly below the levels recorded in Sweden and Finland.

Capital taxation yields, at 14.3 % of GDP, the highest level of revenue of all countries analysed in the report, about five percentage points above the EU-27 weighted average. Oil taxation contributes significantly to this peculiarity. The special tax on petroleum income, which is booked as a tax on the stocks of capital/wealth, is a major component of the revenue from capital taxation; oil companies then also pay corporate income tax at the ordinary rate. These high tax revenues are mirrored in the ITR on capital, which stands at 41.8 %, about one quarter above EU-25 weighted average.

Norway levies a wide range of environmental taxes, including not only the traditional excises on mineral oils but also significant levies on electricity consumption, CO_2 emissions, greenhouse gases, pesticides, sulphur and a tax on NOX emissions — only introduced in 2007. Transport taxes, in particular, are high — twice the EU-27 average — owing to a heavy tax burden on vehicles. In contrast, energy taxes, at 1.3 % of GDP, yield less revenue than the EU weighted average. Pollution/resource taxes yield 0.3 % of GDP, a comparatively high value; note that this amount does not include the special tax on oil companies' profits. Overall, in 2007 the share of environmental related tax revenues on GDP was 2.9 % compared to 2.5 % for the EU-27 weighted average.

Current topics and prospects; policy orientation

The 2009 budget brought measures to strengthen the distributional profile of the tax system. For instance, the tax base of the net wealth tax was broadened and the 80 % rule that constrains the wealth tax for the very wealthy with low taxable income was abolished. The basic allowance in the net wealth tax was increased. Rates of the inheritance and gift tax were reduced considerably as well as allowances were increased. At the same time, the assessment value of unquoted shares was increased. Further measures include an increase in the threshold for the surtax and in the tax free allowance for pension income and increased commuters' and labour union fee allowances. The tax exemption on dividends and gains received by companies was modified by making 3 % of such income taxable. Moreover, the government aims at setting further environmental incentives by introducing a tax deduction for low CO_2 emission cars and increasing tax for high emission cars. Excises taxes are increased on energy, beverages and on tobacco products.

An amendment to the 2009 budget introduced targeted measures in order to alleviate problems for the business community due to the global financial crisis. The amendment introduces the allowance to carry back losses (maximum NOK 20 million (€ 2.3 million)) to the preceding two years. The rules are temporary and affect the fiscal years 2008 and 2009. Thus, losses incurred for instance in 2008 can be carried back and set off against the income in the fiscal years of 2006 and 2007. The tax value of the 2008 loss will then be paid to the company in autumn 2009. The amendment also extends the scope of the R&D scheme for businesses.

Main features of the tax system

Personal income tax

Norway, like several other Nordic countries, has adopted a dual tax system. Income from labour and pensions is taxed at progressive rates, while the remaining forms of income are (mainly) taxed at a flat rate.

The basic element of the personal income tax is levied on so-called ordinary income, which includes all kinds of income, but also various allowances. The tax rate on ordinary income is 28 %; this rate combines State, county and municipal taxes (*Finnmark* and *Nord-Troms* benefit, however, from a lower 24.5 % rate). The surtax (*toppskatt*) is the progressive element of the PIT. It is levied on the so-called personal income — i.e. gross wage income, gross pension income and a calculated income for the self-employed — provided annual personal income exceeds NOK 441 000 (€ 50 912) (NOK 420 000 (€ 48 488) until 2008). The surtax is levied at a rate of 9 % on income between NOK 441 000 and NOK 716 600 (€ 82 729) (NOK 682 000 (€ 78 735) till 2008) and at a rate of 12 % on income above.

The 2006 tax reform abolished the imputation system of taxation of dividends. The reform introduced a tax exempt amount on dividends received by individuals equivalent to the risk-free return on invested capital (this is normally set at the after-tax return on three-month government paper). This tax-free return may be carried forward and be set against future dividend income or capital gains; the excess is taxed at the ordinary rate of 28 %. This, in combination with lower marginal tax rates on labour income, has made it no longer particularly profitable to have labour income taxed as dividends, thus reducing the problem of income shifting.

Corporate taxation

Companies are subject to corporate income tax of 28 %. Income and capital gains are pooled and taxed at the same rate. Special regimes apply to activities related to the exploration for and exploitation of petroleum resources.

Since 2004 an exemption regime for corporate shareholders has been in force. Dividends derived by corporate shareholders from resident companies, savings banks and unit trusts are in principle exempt from tax, as well as capital gains on the disposal of shares in such entities. However, 3 % of such income is taxable in order to balance the deduction of costs related to such income. In general, all expenses incurred in acquiring, securing and maintaining income are deductible. Royalties and management fees are usually deductible, but must be made on an arm's-length basis if such payments are made to related parties.

Capital gains derived from the sale of business assets are normally included in taxable income (with profit and loss account deferral). Losses may be carried forward — and also backward for the years 2008 and 2009 — to be set off against profits in succeeding years. A tax credit is granted to companies engaging in research and development projects approved by the Research Council of Norway.

VAT and excise duties

The Norwegian VAT standard rate is 25 %, and has general use. There is a reduced rate of 14 % on foodstuffs and a rate of 8 % on passenger transport, broadcasting services, admission to cinemas, accommodation in hotels and camping sites and business letting of holiday homes. A zero rate applies to the sale of books and newspapers.

Wealth and transaction taxes

There is an inheritance and gift tax, with a zero rate up to taxable amounts of NOK 470 000 (€ 54 260) (NOK 250 000 (€ 28 862) until 2008). From this level, the rates range from 6 % to 15 % — considerably reduced in 2009 by 2, 10 and 15 percentage points respectively — depending on the status of the beneficiary and the size of the taxable amount.

Resident individuals are subject to national net wealth tax (tax rate 0.4 % — progressive element abolished in 2009) and municipal net wealth tax (0.7 %) above a certain threshold with respect to their worldwide net wealth. The tax base was broadened in 2007, 2008 and 2009, by increasing tax values for homes and for commercial real estate and by broadening the base for securities, but at the same time higher basic allowances were granted. The wealth tax is due independently of the income tax. The rule limiting the total tax burden to 80 % of total net income was abolished in 2009, while at the same time increasing the zero tax bracket from NOK 350 000 (€ 40 406) to NOK 470 000(€ 54 260).

Social contributions

The national insurance contributions payable by employees are computed on gross salary and pension income. The general rate of 7.8 % applies to employment income including benefits in kind and remuneration of directors, members of committees, and so on. A reduced rate of 3 % applies to pensions and life annuities, as well as to employment income derived by individuals under 17 or over 69 years. There is an exemption for incomes up to NOK 39 600 (€ 4 572) from the contributions. For income above this amount, the contributions are at a balancing rate of 25 % until the general rate of 7.8 % on all income is achieved. The contributions payable by individuals are not deductible for income tax purposes. Regionally differentiated rates in employers' social security contributions were reintroduced in 2007 ranging from 0 % to 14.1 %. The self-employed pay national insurance contributions at a rate of 11 %.

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