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Fiscal Aspects of Taxes in European Countries

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Abstract: *Taxation is a system within the economic policy of each European member state, which establishes taxes due to the consolidated state budget. In order to correctly assess the size of fiscal obligations of European states and, especially, of the European Union states, it is necessary to know the particularities of the fiscal system in each and every country.*
A characteristic of European Union countries is the fact that they have the community acquis which includes basic principles of taxation that each member state must apply according to specific conditions. The countries that are not part of the European Union have their own tax systems that ensure the collection of state revenues for the financing of expenses.
Each state has its own organised structures and specific forms of taxation that are included in the operating mechanisms of the respective countries. Organizing taxation is based on the national interests of each European state, whose solution determines the elaboration of policies and adoption of regulations by bodies in every country.
By means of the fiscal policy, each country sets taxes to contribute to budget revenues in order to finance expenses for the operation of each state.
Keywords*: European Countries, European Union, taxes, budget policies.*

Introduction

At the base of taxation in each country there is the economic mechanism represented by a set of methods and tools for the coordination of each state's economic activity. The economic activity expresses the economic interests of the states concerned, taking into account the regional and/or global situations and economic needs of the respective countries.

The economic mechanism is implemented in each country by operating the financial mechanism which is based on the financial system expressed by a set of relationships that render the growth of financial flows at national level. To the achievement of financial flows, the tax system has a special role, which includes the taxes imposed in a state, which provide for the latter a overwhelming part of the public revenue, each tax having a specific contribution and a certain role in the economy, contributing greatly to the redistribution of national income and wealth.

The tax system includes all taxes, fees and other revenue established in each state – based on fiscal legislation (laws and other normative acts). The operation of the tax system is carried out on the basis of the tax mechanism, which includes the methods, techniques and instruments ensuring the dimension, layout of taxes, fees, contributions and other amounts owed to the state's consolidated budget.

The functioning of the tax system is achieved through the tax mechanism, which has in view the coordination, collection and administration of taxes and fees.

The tax system contributes to the functioning of the state by:

- the mobilization of budgetary resources available to the state to cover the public expenses;
- fostering of economic development, the development of economic activities that contribute to improving the income of the state and with positive implications in the social environment of each state;
- ensuring the social protection of some categories of persons carrying out low income, as well as the support of companies whose activities contribute to the solution of state's problems.

1. **Fiscal Aspects in European Union Countries**

Essentially, taxation means the system of principles, rules and norms enacted on: the record and the management of taxpayers, establishment, highlighting and extinction of fiscal obligations, the control and settlement of complaints, offering support to tax payers for the knowledge and proper application of tax legislation.

Specific to European Union countries is the application of the community acquis, which contains a set of rights, obligations and rules common to member states, being in a permanent adaptation to the conditions of this territory [1].

The community acquis highlights:

- the contents, principles and political objectives of the treaties;
- the legislation adopted in the application of the treaties and the case-law of the Court of Justice;
- the declarations and resolutions adopted within the European Union;
- the measures taken in the field of foreign policy and common security;
- the measures taken in the field of Justice and Home Affairs;
- the international agreements concluded by the community and by the Member States between themselves in the Union's areas of activity.

Although the application of the community acquis is mandatory for each state, taxation is an important tool of national sovereignty because, if Governments did not have income, they would not be able to implement policies in certain areas. In each state, taxation can influence consumption, the preservation of resources, and development of the economic environment.

The application of the community acquis leads to the harmonization of taxation within the European Union, with the observance of some special features of the Member States, but, in the end, it should lead to:

- providing the necessary conditions for the development of competition in the business environment;
- the elimination of tax barriers in commercial transactions and the consolidation of the European single market;
- the capital must have free circulation ;
- the allocation of resources should be carried out effectively with taxable profit;
- ensuring the transparency of national legislation concerning taxation in the community space, as well as combating tax evasion and crime;

The need for harmonisation of taxation within the European Union is required by the implementation of the single currency and currency exchange risk avoidance for commercial transactions. In such conditions, the commercial transactions can be traced, and Member States should substantially reduce tax evasion through taxation of the income arising from such transactions and, in particular, of indirect taxes (value added tax, excises, etc).

• **The United Kingdom** is one of the states which adjoined later to the European Union, but once member of the Union, it began the recovery of the main taxes for the purpose of reducing direct taxes and increase indirect taxes. Thus, in 1998, it drafted the law on individuals' income tax and corporate income tax, as subsequently amended by several acts.

The personal income tax is paid by both resident and non-resident individuals, being listed on three levels:

- a rate of 10% on income up to 1,880 £;
- a rate of 22% for revenue within the range £ 1,881-29,400 £;
- a rate of 40% for income higher than £ 29400.

In the United Kingdom the taxable income includes revenue from: employed work and private entrepreneurs' work, business profit, occupational pension, bank interest, dividends and shares, property income. The tax is also payable for some benefits from social security, such as the state pension, the pension for widowhood, the benefit for unemployment and for invalidity, but not others such as: the income for child care. The following are not included in the tax base: the benefits for incapacity, war invalidity pensions, interest received from certain savings products such as: national savings certificates, dividends and other income from investments held in a Personal Equity Plan or from a special account of savings exempt from tax.

The tax on companies' profits is established in progressive rates from 0% to 32.75%. The profits of a company include its income and capital gains. The income of charitable organisations is usually exempt from tax.

Indirect taxes come from value added tax and excise duties. The value added tax is determined on the transactions of goods and services in the United Kingdom, as well as those arising from the transfers from the European Union. As regards the value added tax rates in the United Kingdom, the following are known:

- 17.5% is the standard rate of taxation for goods, being applied to most goods and services;
- 5% is the reduced rate for goods, being applied to the fuel and electricity used in housing and charity;
- 0% is the rate applied to the goods belonging to the products exempted from value added tax, such as: most food, books, newspapers, music, food, medicine and clothing for children.

Excise duties as indirect tax occupy second place, being applied in fixed odds on five major products: beer, wine, spirits, tobacco, petrol/diesel. Beer and alcoholic products are taxed according to their content in alcohol and tobacco products are subject to an additional ad valoreum tax of 22% on the unit price.

- **France**

It is one of the founding states of the European Union with a high tax, where the tax system also holds direct and indirect taxes.

The personal income tax is received both from individuals and commercial companies. The taxable base is the global income, including income from: salaries, private income payments for life, income from movable capital, gains in value, financial income, and income from unpaid revenues.

The tax on company represents the tax on companies' profit, taking into account the net value at the end and the beginning of the financial year, to which payments are made to shareholders, decreasing the additional capital infusions. The information for taxation purposes is taken from the annual report.

The value added tax and excise duties can be found in the calculation of indirect taxes. The rates of value added tax are:

- the standard rate of 19.6%;
- the reduced rate of 5.5%, particularly for agricultural products, most food, books, theatre and cinema tickets;
- the combined rate of 2.1% in particular for medicinal products and newspapers;

In France there are applied exemptions from value-added tax for:

- exports and equivalent transactions and also some imports;
- some banking and financial operations;
- activities subject to local tax on recreation such as sporting events, clubs and casinos;
- some activities undertaken by non-profit organizations, governmental bodies and local authorities;
- some real estate transactions;
- medical and paramedical activities;
- educational activities.

In determining the amount of taxes to be paid there are also established numerous tax deductions.

• **Germany**
As state of the European Union, Germany has a tax system organized on three levels: central, regional and local. The number of taxes and fees is high, but their receipt ensures the macroeconomic balances of the country, their distribution providing an adequate level of living throughout the territory of Germany.

The taxes established by Germany are grouped into three categories:
- federal taxes, 12 in number: customs duties, taxes on: tobacco, coffee, tea, salt, sugar, sparkling wine, mineral oils, refined alcohol, road taxes, railway taxes, taxes on capital;
- Länder taxes, 6 in number: tax on beer; tax on inheritance and donations; motor vehicle tax, tax on financial property, tax on gambling;
- communal taxes include: taxes of small craftsmen, land acquisition tax, land tax (paid by the agricultural and forestry companies), land tax (paid by other companies), tax on dogs, tax on hunting.

The income tax is paid as tax directly to the natural persons who carry out income from the following activities: agricultural and forestry, trade or business, personal services, employees' wages and salaries, income from pensions, income from rents and royalties, capital income (dividends and interest) and from other sources established by the income tax law. In Germany the tax category is progressively established.

The tax borne by commercial companies is the second category as share in the revenue of the State budget. This tax is applied to all revenues made by a company in one year. Commercial companies paying this tax are all companies and legal persons governed by private law which have their headquarter or register income in Germany, including associations and foundations (excluding those with confessional, charity and public utility character) that carry out benefits subject to taxation.

Indirect taxes that have a share in the revenue of the State budget are: the value added tax and excise duties.

The rates of value added tax are as follows:
- 16% for each taxed supply of goods and services;
- 7% for the supply of goods and services, such as: food, drink, pharmaceuticals, newspapers, books, social services, museums and concert halls;
- 0% for exports and intra-Community transfers.

Excise duties in Germany are applied to the following categories of products: tobacco, alcohol and mineral oils.

• **Spain**
It became a member of the European Union in 1986, adapting its tax system according to the community acquis. The structure of the tax system in Spain is composed of three relatively equal parts: direct taxes, indirect taxes and social security contributions.

In the category of direct taxes, the first place is occupied by the global income tax. The application of this tax takes account of each individual and not his/her family, taking into considerations certain deductions. The rates of taxation are different, depending on the tranche of income and are included in the range of 14 and 39.9%. Company income tax applies to all taxable persons, excepting partnerships and other entities without legal status, such as investment funds, joint ventures, venture capital funds, etc. The tax base is represented by the amount of income generated during the fiscal year, less any negative tax reported in previous years and is calculated by making tax adjustments on the results reported in the balance sheets. There are several levels of taxation:
- a standard rate of 35%;

- a reduced rate of 30% for small enterprises with profits of up to € 90,142;
- a rate of 25% for mutual funds, insurance companies, social welfare organizations, for mutual guarantee schemes, for credit unions and non-profit organizations;
- a rate of 20% applies to cooperatives for the outcome of their activity;
- a 10% rate for public foundations and associations;
- a rate of 1% for security funds of collective investment;
- a rate of 0% for retirement fund;
- a rate of 40% for hydrocarbons extracting companies;

The negative tax bases can be carried forward to offset the tax bases for the next ten fiscal years.
An important indirect tax is the value added tax, representing more than half of the amount of indirect taxes. There are more rates of value added tax:

- a rate of 4% for basic necessities (bread, milk, medicine);
- a rate of 7% for certain goods and services considered basic necessities such as foodstuffs for consumption only, water, medical equipment, passenger transport by air and sea;
- a rate of 16% for all other goods and services.

Excise duties, as indirect income, represent a more reduced source for the state budget and are usually applied to: hydrocarbons, tobacco, beer, wine and certain means of transport, with different quotas.

- **Greece**

Taxation in Greece contains direct and indirect taxes. Among the direct taxes there is the personal income tax applied to the income made by all the natural persons who carry out income in Greece with rates ranging from 0% to 45%. An important source for the state budget is represented by the social contributions paid by both employers and employees in a percentage of 4.5% and 5.5% respectively.

The income tax does not exceed 25%, being applicable to all companies and has been applied since 2007.

The value added tax is the indirect taxation with the highest share in the category of indirect taxes and has the following tax rates:

- 4.5% for newspapers, books, theatre;
- 4% for food, water, agriculture, passenger transport, electricity, natural gas;
- the standard rate is 19% used for other products.

Greece has a low taxation in comparison with other European countries.

Other taxes and fees that can be found in the tax system of Greece are: business tax, social contributions, income tax on gifts and legacies, the solidarity surcharge, the fee for the Church, the immovable property tax.

- **Estonia**

It is a member of the European Union, which has a structure of taxation focused more on indirect taxation

Direct taxation has a lower weight, being mainly focused on personal income, in a small share of 20%, since 2007. Companies profit is not taxable, but tax is applied on dividends of 20%, in unique quota. Dividends are paid after all tax losses have been covered.

As regards indirect taxation, Estonia has made special efforts to align the two taxes, the value added tax and excise duties, with the community acquis.

- **Luxembourg**

Within the tax system of Luxembourg, a significant proportion is held by direct taxes. The payers of these taxes are resident natural persons but also those who carry out taxable income in the territory of Luxembourg. The tax rates, 18 in number, are established according to income sources. The tax paid by companies is usually on business and profit and is determined by the size of the profit in a rate between 20 and 22%.

Indirect taxes applied in Luxembourg are the value added tax and excise duties. The value added tax is fixed on the transfer of ownership by applying four types of rates: 3% (super reduced rate), 6% (reduced rate), 12% (for revenue from parking) and the normal rate of 14%. In establishing the value added tax, exemptions are applied in transactions relating to: transfers of goods and services to the European Union, the international transport of passengers, intra-Community acquisition of goods, services, telecommunications, financial and banking transactions, health, education and cultural activities.

Excise duties as indirect tax are applied to products, such as: mineral oils, tobacco and tobacco products, ethyl alcohol, wine and fermented and non-fermented products, and beer.

A tax with a high rate and important share in the state income in Luxembourg is the capital tax and constitutes a third of the total taxes, well above the European Union average.

- **Sweden**

As a Member State of the European Union, Sweden has always adjusted its fiscal system depending on the economic development, being characterised by a high taxation on the natural persons' income.

As a direct tax, the personal income tax is the one resulting from income, such as: pensions salaries, others of the same type and income from uni-corporate business and is determined by the application of two types of rates: 20% and 25%. Legal entities pay tax on the net income realized in a fiscal year by applying a rate of 3%. Compared with other states, Sweden applies tax on energy consumption in households and in the services sector. As in other European countries, a high proportion of total revenue is held by the tax on capital.

As regards the value added tax, Sweden knows three rates: a normal rate of 25% and two reduced rates of 6% and 12%.

- **Poland**

Since 1991, Poland signed an association agreement with the European Union which stipulated the possibility to become a member of this Treaty.

The personal income tax is a direct tax on the income made by a natural person. Its determination is made by applying the following rates: 19%, 30%, 40% and 50% on revenue, being therefore a progressive tax.

Since 2005, a unique quota of 19% is applied on income from: dividends, interest, royalties and other withholding taxes. As regards the tax on companies' income, it is between 19% and 22%, and is applied to the annual profit resulting from commercial transactions.

As indirect tax, the value added tax is also applied in Poland, with four rates of calculation:
- the standard rate of 22% for most commercial operations;
- the 7% rate for products used in agriculture: pesticides, fertilizers, agricultural machinery, products for children, health, materials and services for construction, other services such as transport (with the exception of the taxi business);
- 3% rate for unprocessed products;
- 0% for exports.

In Poland there are applied excise duties for about 200 products such as: tobacco, alcohol, cars, yachts and some consumer products.

Poland is one of the States that succeeded in large part to harmonize its legislation with the European legislation concerning taxation.

- **Romania**

As a member of the EU, Romania has adapted its tax legislation to the community acquis, its tax system being regulated by the tax code.

In Romania, the following direct taxes are applied: the tax on the profit made by commercial companies and the income tax [2].

The following must pay the income profit: Romanian legal entities; foreign legal persons carrying their activity in a permanent headquarter in Romania; foreign legal entities and non-resident natural persons performing in Romania or in association with or without legal personality; foreign legal entities carrying out income from and/or relating to real estate situated in Romania or from the sale/transfer of securities held by a Romanian legal person; resident natural persons associated with resident legal persons, for the income registered both in Romania and abroad from association without legal personality; legal entities with headquarters in Romania, set up according to the European legislation.

The income tax is a direct tax applied to all revenues from: self-employment, salaries, transfer of leasing, investments, pensions, agricultural activities, prizes and gambling and from the transfer of real estate.

Small enterprises also pay income tax for their revenues. In Romania, the tax standard rate for income tax is 16%.

The indirect taxes covered by the tax code of Romania are: the value added tax and excise duties.

The value added tax applies to persons who carry out: paid supplies of goods, service delivery, intra-Community acquisitions of goods, the import of goods. The value added tax rates are: 24%, 9% and 5%. 24% is the standard rate applied to taxable transactions. The rate of 9% is a reduced rate and is applied to:

- the services consisting in allowing access to castles, museums, memorial houses, historic monuments, archaeological and architectural monuments, zoos and botanical gardens, fairs, exhibitions and cultural events, film;
- the delivery of school textbooks, books, newspapers, and magazines except those intended to be exclusive or for publicity;
- the supply of prostheses and their accessories, with the exception of dental prostheses;
- the delivery of orthopaedic products;
- the supply of medicinal products for human and veterinary use;
- the accommodation in the hotel sector or in sectors with a similar function, including the rental of land dedicated to camping.

The rate of 5% is applied to the tax base for the delivery of housing as part of social policy, including the land on which they are built.

The legislation in Romania provides tax exemptions for transactions relating to: hospitalization and medical care in specialized units; deliveries of milk, blood and organs of human origin; educational activities specified by the legislation in force; supplies of services closely linked to the practice of sport or physical education, carried out by non-profit organizations; specific activities of public radio stations and television, other than activities of a commercial nature; public postal service and others.

As indirect tax, excise duties are applied to: cigarettes, alcohol and alcoholic beverages, manufactured tobacco, energy products, green coffee, roasted coffee, soluble coffee. Not subject to excise duties are the products intended for use: diplomatic and consular missions, the armed forces of any State part of the North Atlantic Treaty, for export and intra-Community transfers.

2. Tax Aspects of Other European Countries

Countries that are not part of the European Union have established their own tax system based on national interests, with the aim of providing revenue to fund the national budget expenditure [3].

• **The Republic of Moldova** has its own tax system that highlights the direct and indirect taxes.
As indirect tax, the value added tax is applied to subjects registered for this purpose, represented by: natural persons and legal entities paying this tax, legal and natural persons importing goods and legal and natural persons importing services related to the delivery of goods.

In the legislation of the Republic of Moldova there are established four value added tax rates: 20%, 8%, 5% and 0%.

The rate of 20% is considered standard rate and is applied to the taxable value of imported goods and services and deliveries of goods and services carried out in the territory of the Republic of Moldova.

The rate of 8% applies to products: bread and bakery products, milk and milk products, medications, beet sugar imported and delivered on the territory of the Republic of Moldova.

The rate of 5% applies to natural gas and liquefied gas both imported and delivered on the territory of the Republic of Moldova.

The rate of 0% is applied to:

- goods, services for export;
- operations relating to the international transport of goods and passengers;
- electricity, heat and hot water for the population;
- import and/or delivery of goods and services intended to be used by diplomatic missions and their staff in the territory of the Republic of Moldova.
- import and/or delivery of goods and services intended for the technical assistance projects carried out by international organizations and donor countries within the limits of the treaties to which the Republic of Moldova is a member;
- construction of houses;
- services provided by firms in the light industry sector in the Republic of Moldova, in the context of processing contracts under the Customs inward processing procedure;
- the service delivered by the organizations in the field of science and innovations;
- goods and services placed on the territory of the free “Giurgiulesti” international port, on the western part of the customs territory of the Republic of Moldova;

The tax system of the Republic of Moldova stipulates exemptions from value added tax for: food and non-food for children; State property redeemed from privatization, the medical service, except for cosmetics; medicinal raw material, materials, articles, primary and secondary packaging used in the preparation and production of medicinal products; financial services, services related to gambling; the production of books and periodical publications, as well as their editing services; services imported by organisations in the field of science and innovations and others.

Another indirect tax is represented by excise duties and is applied to 14 types of consumer goods such as: coffee, caviar, champagne, wine, beer, alcohol, tobacco, petroleum products, perfumes, cars, electronic equipment, and jewellery articles. Excise duties do not apply to: the importation of goods, as humanitarian aid; goods intended for diplomatic missions and their staff; export of excisable goods, goods placed in a temporary admitted customs procedure and more.

Through the new tax Code of the Republic of Moldova, there has been established: the rate of 12% on companies’ revenues and 15% tax on dividends earned by natural persons. The tax on the income of natural persons has been set at 7%.

- **Ukraine**

In Ukraine the tax system is linked to the budgetary system. In this country the budgetary system is mirrored by the consolidated budget that has two components: the local consolidated budgets of Ukraine and the State budget of Ukraine.

The local budgets have four components: own revenues, fixed revenues, regulated income and intergovernmental transfers.

Own revenues are components of local governments only and consist of: local taxes and fees, charges for utilities, income from the use of communal property, etc.

The fixed revenues are cashed by the state by collecting taxes and fees, which are subsequently distributed to local budgets.

Regulated revenues are collected by the state, and are subsequently transferred in order to create a balance between the local budgets. These incomes come from: value added tax, personal income tax, tax on corporations' profits and the excise duty.

- **The Republic of Serbia**

Through its specific legislation, the Republic of Serbia has established direct taxes and indirect taxes which contribute to the revenue of the State budget. As direct taxes, there are: corporate income tax, personal income tax, wealth tax and taxes on financial transactions.

The corporate income tax is applied on the total profits of companies and the profits of non-resident companies from economic activities conducted in Serbia. The tax rate is 10%.

The personal income tax as a share the salary tax and applies in a fixed rate of 14%. For the income from: salaries, self-employment, transfer of leasing, investment, agricultural activities, prizes and gambling, the transfer of real estate, the income tax rate is 20%.

The wealth tax is applied to the following categories of activities: estate, legacies and donations and transfer of ownership title. The tax on real estate is applied in a rate of 0.40% and for the transfer of ownership title the rate is 5%. For legacies, donations and financial transactions, the tax rate is established on income tranches.

The value added tax is a tax applied indirectly for the sale of goods, services and imports for such operations. The rates of taxation are: 18%, 8% and 0%.

The rate of 18% is the standard rate generally applied on all operations subject to value added tax.

The rate of 8% is applied in the following cases:

- bread, milk, flour, sugar, sunflower, corn, soybean, olive oil, animal and vegetable fats, fruits and vegetables fresh and frozen meat, fish and eggs;
- medicines included in the list of drugs that are sold only by prescription and are from the health insurance funds, in line with the health provisions in force;
- fertilizers, pesticides, animal feeding stuffs;
- textbooks and school materials, press releases, publications;
- wood for fire;
- accommodation in hotel, motel and other similar tourist units;
- commercial services;
- natural gas delivered to individual producers through the distribution network.

The “0” rate is applied for: educational services, cultural services, medical services, donations and charitable actions, rents (for accommodation), etc.

Operations on the exporting of goods and services are not subject to value added tax. Excise duties represent an indirect tax applied to products such as: tobacco and derivatives, petroleum products, luxury items, etc.

Conclusions

Each European country has its own tax system established according to national interests and international economic situations.

The member States of the European Union organises its customs legislation according to the community acquis, with the exception given by the European Community. The tax rates and fees are different from country to country, but, in principle, taxes and duties are the same in all European countries.

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