Eurasian Journal of Economics and Finance, 3(1), 2015, 22-27
DOI: 10.15604/ejef.2015.03.01.003

EURASIAN JOURNAL OF ECONOMICS AND FINANCE
http://www.eurasianpublications.com

E.U. VERSUS O.E.C.D. TAXATION – AN EXTENDED OVERVIEW FOR DIRECT TAXES AND SOCIAL CONTRIBUTIONS[†]

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Abstract

In a borderless world governed by the mobility of production factors, especially of capital and work force, and characterized by the common markets, taxation/fiscal policy represents a key component of the economic reform and will have a profound impact upon the future of the global economy. For the European Union that still wishes to be seen as a unitary state/force, the complex taxation processes are leaving deep marks upon the business environment development. The OECD countries might not aim the complex coordination processes that define the European Union, but the taxation processes are not without effect upon the business environment development in OECD member states. This paper aims to present a detailed overview of the direct taxation systems – direct taxes and social contributions - at both European and worldwide levels by breaking it down to taxpayer level in order to underline the dynamics and complexity of the taxation process that affect the business environment development. Furthermore, the paper will highlight the impact that the financial crisis had had and still has upon the taxation systems - reducing the fiscal burden upon corporate taxpayer and shifting the burden upon the personal taxpayers.

Keywords: Taxation Systems, Direct Taxes, Social Contributions, Financial Crisis

1. Introduction

Production factors mobility has positively increased in the last decades and along with it the political and taxation arbitrage regarding their settlement. In this context, the fiscal competition has to respond to a new challenge - mainly – increase national territories' attractiveness that partly relays on the taxation system promoted. Taxation systems are a key factor in influencing economy's general efficiency because they determine the slope towards economies, investments, labour and marking the production growth and occupational degree thus making

[†]This paper was co-financed from the European Social Fund, through the Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields - EXCELIS", coordinator The Bucharest University of Economic Studies.

the taxation reform one of the most important components of the economic reform (Lazar, 2012).

The taxation policy/fiscal policy concept has different approaches but the most important one circles around its relation with taxes and the volume of fiscal revenues collected by the state. Bottom line is that the taxation policy refers to the assembly of measures and actions regarding taxes role (and taxes types) in the collection and redistribution of public budgetary revenues in order to increase economic growth. Taxation policy efficiency depends upon state's development, the public and businesses environment rapport and relation and, nevertheless, upon government involvement in the economy.

Until now, at European level, even though efforts are consistent, it is difficult to find optimal solutions when you are trying to "negotiate" with 28 different taxation systems belonging to the same number of states with different developing degrees, more or less willing to make changes at national level. That is why; in a community that wishes to be united, there are irreconcilably differences when it comes to common policies (Lazar, 2012). Nevertheless the European Union insists upon eliminating fiscal barriers for trans-national economic activities but, at the same time, intensifying the fight against harmful fiscal competition and fiscal fraud (European Commission).If at European level, the EU-28 is the trend setter for the taxation policy, the Organisation for Economic Cooperation and Development(OECD) is the trend setter at worldwide level being the entity that owns almost 60% from the world wide economy, over 70% from the international commerce and over 20% from the globe population and nevertheless having as member states 30 countries (adding up to 90% from the total member states) quoted by the Central Bank, from 2010, as countries with high revenues.

Europe had always had a high taxation rate/burden rate. Starting from the 70's the state role in economy has been growing and it has been showed that once this happened the fiscal burden followed an ascending trend. This trend has been seen in economy though the 80's and the 90's and has come to a stop in 2005 when several European countries were facing problems regarding high deficits and unemployment quotas (European Commission, 2014).

According to the European Commission (2014) in 2012 the tax to GDP rate (revenues are including the social mandatory contributions) for EU-28 was 39.4% face to 38.8% in 2011 and 38.3% in 2010 and 2009 - this being the fourth consecutive year when the tax to GDP at European level has increased (this level equals the 2006 level and is with 0.2 percentage points over the 2008 level). Furthermore, in the last 6 years the European levels were above most of the non-UE OECD member states. Thus, the UE level was above US and Japan levels with an average of 12 percentage points and only Norway has registered a tax to GDP level above the EU 28 level with an average of 3.52 percentage points. As if to underline the great disparities that exist in the UE-28, the tax to GDP rate is varying in 2012 from 48.1% (first ranked) - level registered in Denmark (value with 8.7 pp over the UE-28 average) to 27.2% (last ranked) - level registered in Lithuania (value with 12.2 pp under the UE-28 and 20.88 pp away from the first ranked).

Table 1. Total taxes (including social mandatory contributions) to GDP (UE, OECD, %)

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
UE-28	39.4	39.3	39.2	38.3	38.3	38.8	39.4
OECD	35.0	35.0	34.5	33.6	33.8	34.1	35.4*

Source: European Commission, 2014
Notes:* determined by the authors taking into account the available data for 29 out of 34 OECD member states

The analysed data underline the high taxation position of the EU-28 - the seven years average for the UE is 38.95% - face to the OECD - the seven years average registered is 34.48% - with a positive difference of 4.47 percentage points for the UE. Furthermore, data from Table 1 show that both areas were affected by the negative effects of the economic and financial crisis with decreasing values from 2006 until 2009 (the biggest plunge was in 2009 for both UE and OECD) and slowly recoveries from 2010 until 2012 (again, the biggest raise was in 2012 for both areas).

2. Overall Direct Taxation Analysis at EU-28 versus OECD (2006-2012)

Tax revenues, which form most of the budgetary revenues, are divided into 3 categories: direct taxes (like personal income tax), indirect taxes (like the value added tax) and the social contributions (like social security funds).

Table 2.Average structure for tax revenues (2006-2012, UE, OECD, % GDP)

UE-28	Direct taxes	13.2
	Indirect taxes	13.3
	Social contributions	12.5
OECD*	Direct taxes	11.9
	Indirect taxes	11.0
	Social contributions	9.0

Source: European Commission, 2014
Notes:* for 2012 the averages were determined by the authors according to the available data using values for 30 out of 34 OECD member states

While the EU-28 has an almost equal division between the three tax revenue components – direct and indirect taxes and social contributions – with nearly 1/3 for each of the above taxes, the OECD has a clear trend towards direct and indirect taxes (Table 2). The situation can be explained by the big differences in the social contribution systems that appear in the non-UE OECD member states face to the states that both share (meaning that the non-UE OECD member states have a higher influence upon the OECD average than the states that the both organism share).

Starting from these averages, we can also state that the overall direct taxation - that can be determined taking into consideration the direct taxes and the social contribution – is highly significant in both cases. Thus, in average, in the analysed period (2006-2012) in the UE-28 the overall direct taxation is 25.7% from the GDP and in the OECD member states the same indicator is 20.9% from the GDP, while the indirect taxes are with 12.4 percentage points under the overall direct taxation in the UE-28 and with 10 pp under the overall direct taxation in the OECD.

At this point we can assess that the overall direct taxation is more important than the indirect taxation when analysing taxation policies. But the overall direct taxation is affecting both corporations/employers and physical persons/employees and now we have to establish which of the 2 is most affected by this type of taxation – the legal/moral person or the physical one?

One may ask, “Why is this so important”? Well, it’s important because:

1) Almost 90% of the total budgetary revenues are coming from taxes and we should know how, from where and where are these 90% collected and redistributed;

2) In most countries just the legal/moral persons have a saying regarding the taxation policy during the political process, while the physical persons can only vote once a few years and decide their leaders and support their political ideas and

3) Most times the moral/legal person’s representatives state that their fiscal burden is higher which, in most cases, is false.

In the following paragraphs, we are going to focus our analysis upon direct taxes, analysing the evolution of personal income tax (PIT) and corporate income tax (CIT), both as GDP percentages, and social contributions, analysing the evolution of employers and employees’ social contributions as GDP percentages.

Table 3. Personal income tax evolution (UE-28, OECD, %GDP)

	2006	2007	2008	2009	2010	2011	2012
UE-28	9.2	9.3	9.4	9.3	9.1	9.1	9.4
OECD	8.8	9.0	8.9	8.7	8.4	8.5	8.9*

Source: European Commission, 2014
Notes:* for 2012 the average has been determined by the authors according to the available data using values for 30 out of 34 OECD member states

We notice that the UE-28 has a higher PIT/GDP rate than the OECD in all the years included in the analysis (see Table 3); actually the UE-28 average is 9.3%, while the OECD is just 8.7% with 0.6 pp under. Furthermore, we can state that both areas were affected by the economic and financial crisis taking into consideration the decreases registered in 2009 and 2010. Only in 2012 UE-28 and OECD have reached the pre-crisis level for PIT to GDP. As usual in the UE-28 area if we are to analyse the evolution per member state we are going to notice vast discrepancies with average levels of 21.4% in Denmark (12.1 pp over the UE-28 average) and of just 2.5% in Slovakia (6.8 pp under the UE-28 average and 18.9 pp under Denmark). At OECD level, Denmark registers the highest average level with 16.1 pp over the OECD average and at the opposite pole we find 3 states – Czech Republic, Turkey and Korea – with an average level of 3.9% (4.8 pp under the OECD average level) (Filipescu, 2012, Price Waterhouse Cooper, 2012, Price Waterhouse Cooper and World Bank/IFC, 2013, Price Waterhouse Cooper, 2014).

Table 4. Corporate income tax evolution (UE-28, OECD, %GDP)

	2006	2007	2008	2009	2010	2011	2012
UE-28	3.3	3.3	3.0	2.2	2.4	2.5	2.5
OECD	3.8	3.8	3.5	2.8	2.9	3.0	2.9*

Source: European Commission, 2014.
Notes:* for 2012 the average has been determined by the authors according to the available data using values for 30 out of 34 OECD member states

Data in Table 4 underline that the CIT/GDP rate is fluctuating in both areas over the 7 years analysis and the OECD has an average of 3.2% compared to just 2.7% for the UE-28 area. Furthermore, both the UE-28 and OECD have registered draw backs due to the financial crisis in 2009 – the year considered the pick of the crisis – thus, 0.8 pp for the UE-28 and 0.7 pp for the OECD. We can also notice that neither UE-28 nor OECD have succeeded to regain their pre-crisis position. At European level, Malta registers the highest average CIT/GDP rate (6.7%, with 4pp over the UE-28 average) and Spain has the lowest average level (1.5% with 1.2pp under the average UE-28 level and 5.2 pp under the highest level).For OECD, Norway has the highest average level with a 10.9% rate (7.6 pp over the OECD average) and Estonia has the lowest level with 2.9 pp under the OECD average and 10.6 pp under the Norwegian level.

But the most important aspect relieves its self by comparing thepersonal income tax evolution with the corporate income tax evolution and we can easily state that direct taxation is focused upon the physical persons in both UE-28 and OECD. Thus, in the UE-28 the personal fiscal burden is 6.6 pp higher than the corporate one and in the OECD the difference is 5.5 pp. Furthermore, if we are to analyse the areas averages for each type of tax (PIT/GDP versus CIT/GDP) we find that the PIT/GDP tax is 6.0 pp higher than the CIT/GDP tax. Furthermore, in order to underline the states preference towards personal taxation we notice that during the financial crisis years revenues from PIT collection have been decreasing in a lower rate than the CIT revenues and while for PIT present values (2012) have already reach the pre-crisis values for CIT they have not yet reached that point.

Table 5. Social contributions for employees (UE-28, OECD, % GDP)

	2006	2007	2008	2009	2010	2011	2012
UE-28	3.8	3.7	3.8	3.8	3.8	3.9	3.9
OECD	3.3	3.3	3.4	3.4	3.5	3.5	3.3*

Source: European Commission, 2014.
Notes:* for 2012 the average has been determined by the authors according to the available data using values for 30 out of 34 OECD member states

The social contributions owed by the employees in the 2 areas have registered almost similar values with an UE-28 average of 3.8% and a 3.4% average for the OECD member states as shown in Table 5. For both areas we find again great differences between member states with a maximum average rate of 7.5% for Slovakia – Slovakia has the highest level in both the UE-28 and OECD with a value that’s almost twice the average rate for any-given area - and a minimum value of 0.0 for Sweden and New Zealand.

Looking at the values registered year after year, we notice that the financial crisis had little or no impact upon the social contribution revenues collected from employees if anything they actually continued an ascending trend over the 7 years analysis.

Taking into consideration that employees are in most cases physical persons we can associate the social contributions owed by them to a direct taxation system at personal level.

Table 6. Social contributions for employers (UE-28, OECD, %GDP)

	2006	2007	2008	2009	2010	2011	2012
UE-28	7.1	7.1	7.2	7.4	7.3	7.3	7.3
OECD	5.1	5.2	5.3	5.4	5.3	5.2	5.4*

Source: European Commission, 2014

Notes:* for 2012 the average has been determined by the authors according to the available data using values for 30 out of 34 OECD member states

The differences between the two areas are a bit bigger if we analyse the social contributions owed by the employers (see Table 6) thus, the UE-28 area is over the OECD area with 1.9 pp. If we look at member states registered values for each area we will again find huge difference in Europe and worldwide - an average of 11.2% for France for both areas face to 0.0% for Denmark, Australia or Chile. We, also, notice the same ascending trend as for the social contributions owed by employees with little to no impact from the financial crisis. Taking into consideration that employers are most likely to be corporation, we can associate the social contributions owed by them to a direct taxation at corporate level (KPMG, 2012a; 2012b).

Comparing date in Table 5 with data in Table 6 – comparing the social contributions for employees and employers - we can state that the social contribution taxation policy is focused upon the corporate level. Thus, in UE-28, corporations' fiscal burden is 3.4 pp (almost twice) higher than the personal burden and in the OECD area the difference amounts to 3.0 pp. If we are to follow the same analysis as in the case of PIT/GDP versus CIT/GDP, we find that the overall social contributions corporate fiscal burden (the overall analysis takes into account both areas at the same time for the same tax) is higher than the overall social contributions personal fiscal burden with 2.65 pp. This value (2.65pp) is actually lower that the difference registered between PIT/GDP and CIT/GDP overall analysis which was 6 pp so we can really state that the overall fiscal burden(taking into account both direct taxes and social contributions) is higher at personal level.

3. Conclusions

In a borderless world, where the production factors can "run" freely from one state to another, the taxation policy faces many challenges and maybe the most important one is joggling with the fiscal burden levied upon the production factors (capital, labour and consumption) (Ernst&Young, 2009).

This paper focused only upon the direct taxation, mainly direct taxes – personal income tax and corporate income tax – and social contributions and underlined that Europe (UE-28) is a highly fiscal burden area by comparison with the worldwide level (OECD). Because labour, as a production factor, is slightly less movable than the capital policy makers will always choose to increase personal fiscal burden rather than the corporate one.

Based upon the facts presented in the present paper, as a final conclusion, we have realized the following analysis – for both UE-28 and OECD we determined the overall fiscal burden (direct taxes + social contributions) for each level – personal and corporate. The results are synthesized in Table 7.

Table 7. Overall direct taxation at personal and corporate level (UE-28, OECD, %GDP)

	Levels	Values
UE-28	Personal level	13.1
	Corporate level	9.9
OECD	Personal level	12.1
	Corporate level	8.5

Source: authors' calculation

Table 7 shows the authors' calculation regarding the overall direct taxation and we can state that the fiscal burden at personal level is significantly higher than the corporate fiscal burden at both European and world wide level. Furthermore, Europe is consolidating its position as a high fiscal burden area for both individuals and corporations. It is also important to notice that in the last 9 years (2006-2014) at European level 20 member states have made 51 changes regarding the CIT rates (just 24% were tax increase related) and 22 member states have made 63 changes related to PIT rate (almost 56% were tax increase related) (Vintila *et al*. 2013).

The authors state that the conclusions they came to are based only upon the analysis of available data at the time the research was done and that this analysis is part of a larger research theme that will also include the indirect taxation. Furthermore, if the analysis were to be extended including, for instance, to taxation bases, the conclusions might be slightly different.

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