TENDENCIES OF DIRECT TAXING OF EUROPEAN UNION CORPORATION

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Summary: The hypothesis of fiscal competition that generates an alignment "lower" than the imposed level only partially verified empirically, that is for nominal rates, and almost none for effective rates. Also, the impact upon the budgetary incomes can't be made visible. That being said, there are opinions considering that the stout of budgetary money from the companies tax income can't continue on undetermined term. That is because the "space" left for continuous reduction of the imposing rates is still vast while the continuing extending reserves of the legal imposing base have almost exhausted and the companies' rewards can't improve for ever.

Key words: taxing, taxing rates, imposing bases, budgetary incomes, corporation, European Union.

The evolution of the taxing rates among the corporations' incomes offers a good possibility to verify the manifestation of some of the up mentioned effects of the fiscal competition. In this field operate several notions:

a)nominal rate(legal)

This does not offer in formations upon the effective fiscal problem suffered by the company because it doesn't take into consideration different ways through which the imposing base can be determined. Still, the nominal rates seem to have an important psychological function because they are being seen as signals of the general fiscal climate of a country, by the international investors[75].

b)the effective rate

The economical effects of the taxes not only depend of the nominal rates, but also of all the elements that determine the fiscal burden supported by the company-the nominal imposing rate and also the precautions referring to the determination of the imposing base(the foresight of expenses, fiscal credits, fiscal treatment of the reinvested profit, etc).It is very possible that high nominal rate would transform into an effective modest rate if the value of the incomes, consume and wealth is bigger than that of the taxing.

The most important effects of taxes upon investing decisions are determined by the marginal effective rate, which represents the imposing rate of a marginal investment, which obtains an equal efficiency to the economy interests rate, taking into consideration the fiscal liquidation, the inflation rate and the imposing systems.

In exchange, the tax effects upon the public incomes and their function are determined by the medium effective rate, defined as a rapport between the total tax considered on an activity and the total level of the income (economically real) produced by the activity or, in the indirect taxes, of the consume.

Both up mentioned effective rates affect investing decisions, but differently. While the medium effective rates orientate the decision upon the placement chosen for an investment, the level of that investment is more powerful influenced by the marginal effective rate.[76]

Because the fiscal regulations can vary in the activity sector, their effects differ in the active types used and the finance sources of the investments, and the existence of non-linear taxing systems imply the vary of imposing rates according to the theoretically obtained profit rates and there can be an infinity of effective imposing rates.[77]

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[75] Margit Schratzenschaller: *Company Tax Co-ordination in an Enlarged EU*, Austrian Institute of Economic Research (WIFO), May 2005; p.12

[76] Michael P. Devereux: *Taxes in the EU New Member States and the Location of Capital and Profit*, Oxford University Centre for Business Taxation, WP 07/03, January 2006; p.5

[77] Rachel Griffith, Alexander Klemm: *What has been the Tax Competition Experience of the Last 20 Years?*, The Institute for Fiscal Studies, WP 04/05, February 2004; p.12

c) the implicit rate(apparent)

This indicator is calculated at macro economical level(through the tax rapport taken by the PIB) or micro economic(through the tax rapport taken from the gross income).

He has a big relevance problem for the characterisation of the importance of the fiscal factor. On one side, if it is determined at macro economic level, it is strongly influenced by the level and the dynamics of the PIB and also the companies' sector structure(the importance of companies in it) which affects its capacity to facilitate both international and inter-temporal comparisons.

At a micro economical level, on the other hand, its dimension depends on that of the gross income, which is difficult to compare between fiscal jurisdictions, because of the differences in the accountant standards (especially at the reserves, the extra-balance elements).[78]

On the other side, this is also the only indicator that can globalise the effect of a parameter of the fiscal system, other than the rate and imposing base, that the up-mentioned indicators can't have: the administration tax method. Indeed, aspects such as the honesty of the taxpayers, the intensity of the fiscal controls or the effective payment of the taxes can differ a lot in time or through different jurisdictions.

According to the complexity of the tax operation, the effective rate is more or less tightly associated to the nominal rate. As a general rule, the difference between the two rates is bigger in the cases of the direct investments that in those of portfolio.

This fact explains why some countries come up with low nominal rates(to introduce the profit rapports into their own jurisdiction) and high effective rates(to have a larger imposing base).Still, the differences recorded between European Union state members from the point of view of the effective rates explain principally through existing differences at the level of the nominal rates and only through differences at the level of the elements that determine the taxing base.

In the last 25 years there have been some major reductions of the nominal tax rates for the companies' income in EU, and the tendency seems to have accelerated in the last years. That is how, in 2007 less that 5 member states operated reductions of the imposing rates: Greece, Holland, Spain, Bulgaria and Slovakia[79]. Between 1982-2001 the nominal medium rate went low from 48% to only 33%. Generally the reductions operated by the small countries were more important than those applied in the big countries of the Union. The nominal taxes for corporations' income started to go low strongly in the last years also in the new members of the EU. The medium level of the imposing rate in the new 12 member states was of 21.5% in 2003 and it has reduced to 17.8% in 2006. In the old member states, the reduction was from 30.1% in 2003 to 27.7% in 2006, this representing less that two thirds of the 45% level recorded at the beginning of the 80s'.

Although there is the temptation to attribute this reduction to imposing rates, commune to other extra-European advanced countries, fiscal competition, mustn't neglect the fact that other determinants might have played a same important role. We are talking about, firstly, of the ideological preferences evolution, factor of whose importance can be evidenced by the almost systematically major reductions coincidence of the imposing rates of the capital with presence of the governing persons that come from the right position of the political sceptre. In the same way there can also be explained some very important reductions of the imposing rates of the corporation income that is registered in east-European countries who had the same economical transaction process characterised by the major restrain of the state's interference and the public economical sector.[80]

Secondly, we must take into consideration the fact that a state's reaction to reductions of taxes that were operated into another state can introduce not a competition, but a different behaviour determined by the preferences of the citizens, who compare imposing rates from their own jurisdiction with those existing in other countries[81]. Finally, evolutions correlated into the concern of the rates and the imposing rules applied into different countries can reflect the existence of common intellectual tendencies, usually released by

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[78] Dirk Göpffarth: *The Effect of Tax Harmonisation on Effective Tax Rates in the European Union*, June 2001; p.2

[79] Thomas Rixen, Susanne Uhl: *Europeanising Company Taxation - Regaining National Tax Policy Autonomy,* Friedrich Ebert Stiftung, International Policy Analysis, July 2007; p.7

[80] Amina Lahrèche-Révil: *Who's afraid of tax competition? Harmless tax competition from the New European Member States*, CEPII, Working Paper no.2006-11, June 2006; p.11

[81] Gaëtan Nicodème: *Corporate tax competition and coordination in the European Union? What do we know? Where do we stand?*, European Commission, DG ECFIN Economic Paper no.250, June 2006; p16

the discovery of certain solutions to difficult fiscal problems (introduction of VAT or the proliferation of certain types of fiscal incentives initially used only by a certain country can be such examples.)[82]

In the last two decades of the past century there has been a o reduction of the disperse of the nominal rates applied by the member countries of UE-15 : standard deviation decreased from 3,4 to 2,0 in the range 1990-97. It rose again, but, in the years 2000. In the conditions where the New Member States of the EU tend to have levels of profit imposed rates noticeably smaller then the old members, the disperse in the UE-27 is even bigger. More , the recorded tendency over the last decade is the deepen of the discrepancy of the imposed rates practiced by the old member states and the new members , even when the rates are decreasing in both country groups. It has to be mentioned that if you take into consideration and local taxes imposed to companies (important in countries like Germany, Italy, Luxembourg and Portugal), the disperse of nominal rates rises even more.

	1980	1990	1995	1998	2001	2004	2007
Austria	55	39	34	34	34	34	25
Belgium	48	41	39	39	39	34	34
Denmark	40	40	34	34	30	30	28
Finland	59	41	25	28	29	29	29
France	50	37	36,7	41,6	36,4	35,4	34,4
Germany	56	50/36	45/30	45/25	25	25,0	25,0
Greece	43	46	40	40	37,5	35	25
Ireland	45	43	40	32	20	12,5	12,5
Italy	36	36	36	37	36	34	34
Luxembourg	40	33	33	33	30	30,4	29,6
Great Britain	52	34	33	31	30	30	30
Holland	48	35	35	35	35	34,5	25,5
Portugal	42/47	36,5	39,6	337,4	35,2	27,5	26,5
Spain	35	35	35	35	35	35	32,5
Sweden	52	40	28	28	28	28	28
EU-15 Average not weight	...	40,4	38,0	34,9	32	31,6	26,9
Bulgaria			40	37	28	23,5	10
Cyprus		42,5	25	25	28	15	10
Czech Republic			41	35	31	28	24
Estonia			26*	26*	26*	26*	22*
Leetonia			25	25	25	15	15
Lithuania		35	29	29	24	15	18
Malta		32,5	35	35	35	35	35
Poland		40	40	36	28	19	19
Romania		38	38	38	25	25	16
Slovakia			40	40	29	19	19
Slovenia			25	25	25	25	23
Hungary		50	19,6	19,6	19,6	17,6	18,6

[82] Rachel Griffith, Alexander Klemm: *What has been the Tax Competition Experience of the Last 20 Years?*, The Institute for Fiscal Studies, WP 04/05, February 2004; p.26

New Member States Average			30,6		24,8	21,5	16,8

Legal imposed rates of corporate' income (excluding local taxes -% -

* un invested profits are not imposed

Sources: - Michele Debonneuil, Michel Fontagne: Fiscalite et Marche Unique, Rapport du Conseil d'Analyse Economique no.40, Paris, 2003;

- Margit Schratzenstaller: *Company Tax Co-ordination in an Enlarged EU*, Austrian Institute of Economic Research, May 2005; p.13
- Wolfgang Eggert, Andreas Haufler: *Company tax coordination cum tax rate competition in the European Union,* University of Munich, Discussion Paper 2006-11, March 2006; p.4
- Gaëtan Nicodème: *Corporate tax competition and coordination in the European Union? What do we know? Where do we stand?*, European Commission, DG ECFIN Economic Paper no.250, June 2006; p.15
- Katrin Rabitsch: *Eastern European Integration and Tax Competition*, Wirtschafts Universität Wien, Discussion Paper nr.26, September 2007; p.18

Reversibly, *medium effective rate* in different member countries of the EU has been less mobile :it recorded a certain decrease during the 80's , but has been stabilised since the second half of the 90's . The disperse of the recorded effective rates has been very important at the beginning of the range, sensitive narrowing later. In 2001, it was just less marked then the recorded one due to legal (nominal) imposed rates, suggesting a high degree of correlation between the two types of rates, which the Pearson coefficient of 0,92 confirms it empirically.[83] Otherwise, according to the European Commission, approximately three quarters of the recorder differences between Member States under the aspect of effective medium imposed rates due to the existing differences between the nominal rates.

The joining of new member states doesn't change the situation as significantly as it happens in the nominal rates case, because these countries don't have such low medium effective rates. It is true that the estimations made for the new members don't take into consideration the different schemes of fiscal stimulants applied selectively to those countries.

We are talking about measures such as: the un paying of tax for 10 years for companies new born in Czech Republic and Slovakia, the fiscal credit is of 35-50% of the investments value, given in Hungary in the first 5 years, the reductions of tax on the companies income that are established in "special economical areas" from Leetonia and Lithuania; the accelerated amortization given in Poland for certain new acquired categories of actives.[84]

If it would have been taken into consideration also the effects of these stimulants, the medium marginal imposing rate would decrease, in some cases (Lithuania, Leetonia, Poland, Slovakia) at almost half! But how most of these schemes are incompatible with the community *acquis* concerning the helps the state is giving, they have been destroyed once with the entrance of those countries in the European Union.[85]

	1982	**2001**	**2004**	**2005**
Austria	50,0	27,9	31,4	23,1
Belgium	39,0	34,5	29,7	29,7
Denmark		27,3	27,0	25,2
Finland	53,0	26,6	27,3	24,6
France	41,0	34,7	33,1	34,8
Germany	56,0	34,9	36,1	

[83] Sijbren Cnossen: *Tax policy in the European Union. A review of issues and options*, 2002; p.60

[84] xxx: *Company Taxation in the New EU Member States. Survay of the Tax Regimes and Effective Tax Burdens for Multinational Investors*, Ernst&Young and ZEW, 2005; p.32

[85] Michael P. Devereux: *Taxes in the EU New Member States and the Location of Capital and Profit*, Oxford University Centre for Business Taxation, WP 07/03, January 2006; p.9

Greece	39,0	28,0	27,0	36,0
Ireland	6,0	10,5	14,4	14,7
Italia	30,0	27,6	32,8	32,0
Luxemburg		32,2	26,7	26,7
Great Britain	36,0	28,3	28,9	28,9
Holland	43,0	31,0	31,2	28,5
Portugal	52,0	30,7	28,0	
Spain	29,0	31,0	32,0	36,1
Sweden	54,0	22,9	23,4	24,8
EU average	***40,6***	***28,5***	***28,5***	
Cyprus			16,7	
Czech Republic			24,6	22,9
Estonia			31,9	
Leetonia			23,4	
Lithuania			15,4	
Malta			34,7	
Poland			29,8	
Slovakia			27,4	16,7
Slovenia			33,4	
Hungary			24,9	17,9
New Member States Average			***26,2***	

The medium effective imposing rate (%)

Source: **-** *Margit Schratzenschaller: Company Tax Co-ordination in an Enlarged EU, Austrian Institute of Economic Research (WIFO), May 2005; p.17-18;*

– Wolfgang Eggert, Andreas Haufler: *Company tax coordination cum tax rate competition in the European Union,* University of Munich, Discussion Paper 2006-11, March 2006; p.4;

According to some studies, the effective marginal rates of taxing have been much more stable through time than the medium ones, which explains through the extending process o imposing bases parallel to the reduction of imposing rates. If this tendency hasn't repeated in the case of the medium effective rates, who, as it is seen in the charter above , have reduced considerably, the explanation must be seek in the increase of investments profitability. Since the more deep capital tends to be also the mobile one, the evolution up-mentioned can be interpreted as a growing competition for the mobile capital, especially for the multinational companies.[86]

Austria	46,3%	Italia	44,5%
Belgium	17,2%	Luxemburg	51,7%
Denmark	66,3%	Great Britain	48,7%
Finland	25,0%	Holland	69,3%

[86] Rachel Griffith, Alexander Klemm: *What has been the Tax Competition Experience of the Last 20 Years?*, The Institute for Fiscal Studies, WP 04/05, February 2004; p.28

France	36,5%	Portugal	28,4%
Germany	55,9%	Spain	57,3%
Greece	37,2%	Sweden	29,7%
Ireland	47,1%		

Effective marginal rates of taxing on corporations' income, 2000

Source : Dirk Gopffarth: The Effect of Tax Harmonisation on Effective Tax Rates in the European Union, June 2001; p.5

The most used implicit tax rate is that resulting from the incomes upon the corporations' profit rapports at PIB. This indicator of "fiscal burden" remained remarkably constant in period characterised still by major reductions of the imposing rates. It is true that in time, we can remark some fluctuations, but they reflect conjectural evolutions, imposed by the phases of the economical cycle. Another finding is that generally, countries with smaller economies have come to increase, including in relative terms, more the budget cashing from the income tax of the corporations comparing to big countries. Furthermore, there is no clue of any tendency to convert this "fiscal burdens" in the EU. The most important changes at the analysed level were in the countries with the smallest "fiscal burdens"(and these variations were in both directions) which means that the preferences of the countries who wanted a better redistribution through the budgetary lever haven't been let down.

There are two important reasons from which the reduction of the imposing rates haven't transformed into decreases in the budgetary incomes. In a way, what worked was the enlarging effect of the imposing base, effect described graphically by the well known "Laffer curve".

The relative constancy of the tax cashing, despite the very important reductions of the imposing rates is because of the fact that parallel, more countries have adopted measures to enlarge the imposing bases. In the EU's case, this seems to be also an effect of the initiatives adopted at community level to destroy the damaging fiscal competition.[87]

This suggest a special interest to attract investments that have a high degree of profitability, as tend those effected by trans-national corporations. To reach this, it has come to the reduction of the imposing rate, and several fiscal deductions have been eliminated. Because the importance of the fiscal deductions decreases with the increase of profits, this measure combination is favourable especially to trans-national companies.[88]

The enlargement of the imposing bases through the reduction of fiscal deduction possibilities can also have unknown consequences in the conditions of the internationalisation of the production and the unstopped circulation of the capital. Firms with essentially aboriginal activity, especially the small and medium one have to support a higher fiscal burden, while the multinationals have access to a wider range of instruments that allow them to restructure the national imposing bases("on paper", not with physical movements of the actives) so they could maximise dimensions of the bases in jurisdictions with the smallest imposing rates.[89]

On the other hand, the incomes from the tax on profit not only depend of the fiscal legal parameters(rate and imposing base) but also on the inside evolution of the variable submersed to taxes.

The companies' profitability evolves in the same way as the economical cycle and may explain the variation of the analysed indicator. Still, a study that was taken recently said that the effect of economical conjecture factors upon the budgetary cashing from the tax on corporation income in EU was very less important in 1990-2003. [90]

There are also more "technical" explanations to the variation of the analysed indicator, like evolutions in the "economy corporation" rates. The cashing increases can reflect a higher weight of the companies'

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[87] xxx: Taxation trends in the European Union. Main results, 2007 edition, p.15

[88] Rachel Griffith, Alexander Klemm: What has been the Tax Competition Experience of the Last 20 Years?, The Institute for Fiscal Studies, WP 04/05, February 2004; p.14

[89] Thomas Rixen, Susanne Uhl: Europeanising Company Taxation - Regaining National Tax Policy Autonomy, Friedrich Ebert Stiftung, International Policy Analysis, July 2007; p.8

[90] Alfred Boss: Tax Competition and Tax Revenues, Intereconomics, January/February 2006; p.45

economical sector, while the tax on corporation income reductions have encouraged the organisation as companies of previous economical activities.

In the analyse of known data it must be considered also the fact that the indicator is an “ex post” one and its level can be affected by previous events who still have effects now. It is the case of the previous clauses(who allow an investment to benefit a while from the fiscal regime from the moment it was effectuated, even if that who is now has been modified) or of the possibility to rapport fiscal loses in the future.

	1980	**1990**	**1995**	**2000**	**2003**	**2005**
Austria	1,4	1,4	1,5	2,0	2,0	5,4
Belgium	2,2	2,4	2,8	3,6	3,4	**4,0**
Denmark	1,4	1,5	2,0	2,4	2,8	3,6
Finland	1,2	2,0	2,3	6,0	3,5	3,4
France	2,1	2,3	2,1	3,1	2,6	2,8
Germany	2,0	1,7	1,1	1,8	1,3	1,8
Greece	0,9	1,6	2,0	4,6		
Ireland	1,4	1,7	2,8	3,8	3,9	3,4
Italia	2,4	3,9	3,6	2,9	2,8	2,8
Luxemburg	6,6	6,5	7,5	7,2	7,9	5,5
Great Britain	2,9	3,6	2,8	3,6	2,8	3,4
Holland	2,9	3,2	3,1	4,2	3,0	3,9
Portugal		2,3	2,5	4,1		
Spain	1,2	2,9	1,8	3,0	3,1	3,9
Sweden	1,2	1,7	2,8	4,0	2,0	3,7
Media for EU-15	***2,1***	***2,6***	***2,7***	***3,8***		
Czech Republic			4,9	3,8	4,8	4,6
Poland			2,8	2,5		
Slovakia				2,8		2,4
Hungary			1,9	2,2		2,1

The product of taxes on the corporations’ incomes (% din PIB)

Source: - Alfred Boss: Tax Competition and Tax Revenues, Intereconomics, January/February 2006; p.45

- Frank Zipfel: *One Europe, one tax? Plans for a Common Consolidated Corporate Tax Base,* Deutsche Bank Research, EU Monitor 49, 25 September 2007; p.4

Another important factor for the characterisation of the known evolvements by the tax on corporations’ income is the *percent cashed of this type of tax from the total budget cashing.* The general tendency known by this indicator was decreasing starting with 1965, but lesser at the end of the 80’s. This suggests that, although the member states have managed to keep their incomes constant comparing to PIB, they couldn’t grow that much as other taxes. In the 90’s, the tendency was of a small increase, followed by a new trend easily descending on this decade. At the EU level 15, this indicator’s level was 2.7% in 1995, growing until 3.7% in 2000, so that it would decrease to 3.1% in 2003.[91]

[91] Michael P. Devereux: *Taxes in the EU New Member States and the Location of Capital and Profit*, Oxford University Centre for Business Taxation, WP 07/03, January 2006; p.11

At the new member states level, the modifications in the last decade have been less marked, and the tendencies were opposite: decrease in the second half of the 90's followed by increase in our decade. Generally, the new member states are more addicted to this types of tax cashing for their budget increase than EU-15.

There are big differences between the EU member states according to the tax contribution at the corporations' income and at the realization of the budgetary cashing. In 2002, these taxes contributed with only 1.5% to the federal budget of Germany, but with 20.5% at the budgetary Irish incomes. It is normal that these differences reflect in the priorities that the member states take connected to the harmonization of this type of tax at community scale. As a paradox, at least in the extreme up-mentioned cases, the preference for harmonization isn't what it would be expected: Germany is in the front line of the member states who support harmonisation initiatives for the imposing rates, while Ireland remains into the most reticent members for such proposals.

	2002	**2005**
Belgium	6,7	8,9
Denmark	5,8	7,3
Finland	9,3	7,6
Austria	6,9	5,4
France	5,9	6,3
Germany	1,5	5,2
Greece	10,4	
Ireland	13,0	11,3
Italia	6,3	6,9
Luxemburg	20,5	14,6
Great Britain	7,6	9,3
Holland	9,4	9,8
Portugal	10,3	
Spain	9,5	10,8
Sweden	5,1	7,3
Cyprus	15,4	
Czech Republic	12,4	12,0
Estonia	3,8	
Leetonia	6,9	
Lithuania	2,1	
Malta	13,1	
Poland	4,9	
Romania	6,8	7,8
Slovenia	3,4	8,3
Slovakia	8,3	
Hungary	6,1	5,8

The product of the taxes on the corporations income(% of the budgetary cashing)

Source: **-** *Wolfgang Eggert, Andreas Haufler: Company tax coordination cum tax rate competition in the European Union, Munich Economics, Discussion Paper 2006-11, March 2006;*

- Frank Zipfel: *One Europe, one tax? Plans for a Common Consolidated Corporate Tax Base,* Deutsche Bank Research, EU Monitor 49, 25 September 2007

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