CURRENT TRENDS IN TAX HARMONIZATION AND COMPETITION WITHIN THE EUROPEAN UNION

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This article treats on the fiscal harmonization process within the European Union being indispensable for assuring loyalty in the competition on its single market, given the fact that different system of taxation had direct and powerful impact on the prices level and on chosing the location for production and distribution activities.
Both direct and indirect taxation distort the four fundamental freedoms of the single market. Most of the European Union´s regulations regarding fiscal harmonization resemble to the Directive regarding especially the indirect taxes: VAT, Excises.
The fiscal reforms from the member states have to be conceived in such a manner that they take into account the necessity of fiscal harmonization on EU level, creating a reasonable compromise between each country˙s sovereignty and the desideratum of removing fiscal barriers from the normal functioning of the single market.

Keywords: fiscal harmonization, fiscal reform, VAT, income tax, fiscal europeanization

JEL codes: H21, F36

1. Considerations on fiscal pressures within the European Union

If we take a brief look back in time at the Romanian fiscal system during the transition period, an important stage in the evolution of Romanian fiscal system represents the fiscal reform from 2005, when one has replaced the progressive tax on individuals incomes with a 16% flat rate and the reduction of the income tax from 25% to 16%, which lead to an increase of fiscal incomes with about 7% of GDP. The objects of the reforms depended on the support of the fair distribution of the profit as a result of economic increase, business climate improvement and consolidation of Romanian competition.
The Romanian particularity, in comparison with the old EU member states, before the 1st May 2004 consists in the incomes structures raised from the national budget. In Romania, as well as in the other recently adhered Central and Eastern European countries, the fiscal incomes are mainly composed of indirect taxes – VAT, excises, customs duty, while in the old EU member states, the distribution of the three tax categories – direct taxes, indirect taxes, social contributions to the incomes – is relatively close.

Table no. 1: The evolution of fiscal incomes from VAT (% of GDP) in the period 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU- 27	7	6.8	6.8	6.8	6.8	6.9	7	7.1	6.9
Belgium	7.2	6.9	6.9	6.8	6.9	7.1	7.1	7.1	7
Bulgaria	9.7	9.1	9.2	9.8	10.7	12.1	12.4	12.1	11.5
Denmark	9.6	9.6	9.6	9.6	9.8	10.1	10.3	10.4	10.1
France	7.3	7.2	7.1	7.1	7.2	7.3	7.3	7.2	7
Austria	8.1	8.1	8.2	8	8	8	7.7	7.7	7.8

Romania	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	8.1

Source: http://epp.eurostat.ec.europa.eu/

VAT represents one of the most important income resources, but in creating the national and the EU budget. European Union´s average is 6.9% of GDP. From receipt point of view, Romania exceeds the European average with 8,1% of GDP, the countries with the highest fiscal incomes being Denmark and Bulgaria.

Table no. 2: Evolution of fiscal pressure (% of GDP) in the period 2004-2008

	2004	**2005**	**2006**	**2007**	**2008**
EU- 27	40.1	40.4	40.9	40.9	40.5
Belgium	46.9	46.9	46.5	46	46.5
Bulgaria	33.1	34.0	33.2	34.2	33.3
Denmark	50	51.7	50.5	49.9	49
France	45	45.4	45.7	44.9	44.6
Austria	44.9	43.9	43.5	43.8	44.4
Romania	27.7	28.5	29.2	29.8	29.4
Great Britain	36.7	37.6	38.4	38.1	38.9

Source: http://epp.eurostat.ec.europa.eu/

From the table above we can remark that the Romanian fiscal system is at an average level in comparison with the European Union´s countries, being considerably under the fiscal pressure[412] level of France and Denmark. A higher fiscal pressure is specific to the developed countries: Belgium, France, Austria. Although the fiscal pressure in Romania is under the EU-27 average of 40,5%, from tax payers´ point of view it is high. When analysing the fiscal pressure of some EU countries we have to take into account their development level, the purchasing power of the country; according to these criteria Romania can be still considered a country with a developing economy, in comparison with the developed countries: France, Germany, Austria, etc.
Further on, we limit our analysis to only three European Union countries: Bulgaria, France and Romania. The reason of chosing these states consisted in the fact that Bulgaria adhered to the UE in 2007, as well as Romania who has a fiscal system similar to that from France. The analysed tax types are: tax on the incomes of persons, profit tax and VAT.

Bulgaria
The tendency of the tax on the persons incomes is in decrease reaching in 2008 a share of 10%. The proportional single tax rate is perceived on the incomes from six different sources, existing only a few fiscal exemptions. This rate is applied both on the incomes of the resident persons and on the incomes made in Bulgaria by non-resident persons. Pensions and other payments made from the social assurances budget are exempted from taxes. Similarly, the incomes resulting form interests of the savings deposited in banks in Bulgaria or other EU country are excepted from imposition.
During the last decade, the taxation of commercial societies´ profits in Bulgaria became more and more profitable for the development of businesses. From a 40% rate in 1995 for large companies, the rate has been reduced almost each year, reaching a rate of 10% on the 1st of January 2007. There exists even exemptions from taxation even upt to 50% for initial investments and the investments in computers, softwares and mobile phones. The investments in new assets for the purpose of promoting the energetic efficiency benefits from an exemption of 50% from the profit tax. Another measure of business encouragement, effective since the 1st of January 2009, is the

[412] We´ve taken into account the fiscal pressure calculated generally as a report between the fiscal incomes+social contributions and VAT

exepmtion for 5 years from tax payment for those who make profit from the following activities: agriculture, hi-tech, infrastructure.
The VAT standard rate has been reduced from 22% to 20%. The rate reduced to 7% is applied for the accomodation in hotel if it is about an organised travel.

France

Since 1999, one of the main purposes of fiscal policies was to reduce the taxes on the incomes from salaries, taking into account the specific situation of each family. The tax on the income of persons is percieved annually on the income resulting from any sources, in progressive rates on instalments. In 2008, the maximum rate was 40% applied to the incomes higher than 69.505 Euro. A remarkable character is the high number of the applied exemptions. The incomes resulting from investments, such as bank interests, incomes resulting from the profits on the capital market are charged with a proportional rate of 16%.
The profit tax affects each profit made in France by the companies and other legal entities, the standard rate being 33,33%. The large companies with an asset turnover exceeding the threshold of 7.630.000 Euro and with a taxable profit of 2.289.000 Euro have to pay a surtax with a 3.3% additional rate.
France has a VAT standard rate of 19.6% and two reduced rates. A reduced rate of 5.5% is applied to the absolutely necessary products and on the restaurant services and the reduced rate of 2.1% for newspapers, plays and approved medicines.

Romania

Since 2005, the tax rate on the incomes of persons are proportional, unique of 16%. This rate is applied to the incomes resulting from independent activities, from the concession of goods, from salaries and agricultural activities. Moreover, the incomes of the employees whose main activity represents software development are exempted from income tax payments. Benefits in kind are charged normally. The incomes from pensions are charged with 16% , but only those exceeding 1000 RON/month, that is about 235 euro.[413]
Since 2005, the profit of commercial societies is also charged with the same proportional, unique 16% rate, reduced from 25%. In the context of international financial crisis and the current government´ s desire to limit tax dodging, there has been introduced since April 2009 a minimal tax on the profit of commercial socities, established according to the total incomes registered at the end of the last year.
Romania has a VAT standard rate of 19%, two reduced rates, one of 9% and one of 5%. The 9% rate is used for medicines, medical equipements, books, newspapers, the right to access some cultural and hotel accommodation services, while the 5% rate is applied for providing social and some private housings.

2. Current trends regarding tax harmonization within the European Union

At the same time with the intensification of European economic integration, persons and individuals gain a greater freedom to benefit from the opportunities given by foreign economies. Thus, international fiscal competition increases together with the inscrease of capital and work force mobility. Fiscal harmonization proves indispensable for assuring loyalty in the competition on the EU single market, given the fact that the different system of taxation has a direct and powerful impact on the level of prices and on the choice of the investment´s location. At the same time, it is an extremely complicated process because the modification agreed on the tax affects the entire national fiscal system.

[413] Romania´s Fiscal Code up dated

Fiscal harmonization ambitions can be thus categorized on three levels.[414] Two of them would be the avoidance of immediate imbalance resulting from the opening of borders, EU fiscal system smoothing[415]. Both direct and indirect taxes distort the main four freedoms of the EU single market. But the most EU directives refer to VAT and excises, which are indirect taxes. Concerning the direct taxes, EU´s acquis regards the profit tax, capital gains tax and less the tax on the incomes of persons. Most of the dispositions regarding direct taxes are left at each state´s disposal, a fact that represents an attribute of their sovereignty. From the point of view of the harmonization of taxation elements , we can refer to several aspects: kind of taxes, imposition rate, taxation base and way of management.
According to a study one reached the conclusion that the more developed countries, such as France or Germany, having large taxation base, are for the harmonization of direct taxes, in comparison with the less developed countries which are skeptical regarding the process of harmonization of these taxation categories. Romanian fiscal system integrates itself in the typology of East-European fiscal system, rendering this martket more attractive by means of a direct taxation, more reduced in comparison with the Western-European fiscal system.
Fiscal disparities at EU level determined the European Commission to initiate the implement of a common system of taxation of the profit made by the companies located on the European Union´s territory. The system has the determined purpose to remove fiscal obstacles between European transactions. This probably represents the beginning of the fiscal europeanization. The fiscal europeanization can also have the meaning of dependence of the European Union´s main institutions. Thus, there would gradually lose the national fiscal autonomies, or parts of them, and the fiscal system would no longer represent a national problem, but a Community problem.
A European measure in fiscal harmonization represents the implement of the common consolidated base of the profit tax (Common Consolidated Corporate Tax Base, or CCCTB), having as main object to facilitate the economic operations realised by the companies from the European Union, but it has no compulsory character, but an optional one. The application of the common base means actually the use of some common regulations regarding the calculation of taxation base for the profits made by the EU companies.
The Commission´s proposition for a common base of taxable profit at EU level, letting continually the freedom to national governments to establish their own rate of profit tax is pragmatic and reasonable. This would simplify the profit taxation of the companies which carry on their activities on EU territory, without affecting the competition and restricting the freedom of national governments to establish tax rates considered adequate.
The common consolidated corporate tax base is not the only object of the European Union concerning the fiscal harmonization of direct taxes, but it has also in view to create a common taxation system, applicable to fusions, divisions, assets assigning and shares changing within companies belonging to different EU member states and a common profit tax system among offices and head-quarters.

3. European Union´s fiscal paradises – a form of disloyal fiscal competition

A major problem that the European economy is confronting with represents the fiscal paradises, known also as fiscal shelters or ˝fiscal heavens˝. Actually these are key-areas of the European economy through which there are circulating freely and continually financial flows drawn as a magnet by the facilities offered by these areas. We can appreciate the fact that these have represented actually the stimulus of the capital migration at international level and even the fiscal europeanization. Generally these are characterized by globally specializing in different services,

[414] H. Sterdyniak, M - H. Blonde, G. Comilleau, J. Le Cacheux, J. Le Dear, Vers une fiscalite europeenne, Ed. Economica, Paris, 1991, p. 79-97.
[415] Tulai C., Şerbu Simona, Fiscalitate comparată şi armonizări fiscale, Editura Casa Cărţii de Ştiinţă, Cluj-Napoca, 2005, p.136-138.

mainly bank services, serving the interests of multinational companies. These consitute the meeting point of ˝white money˝ with ˝black money˝, implying no discrimination, even though these fiscal shelters have strict laws concerning ˝black˝ money laundering to assure that financial institutions headquartering there are not used illicitly. Moreover, they have special departments investigating any possible regulation violation. The offshore banks have stricts methods of ˝acknowledging the client˝, the well known anonymous accounts are just a myth.

Within the European Union we can meet several fiscal paradises, such as Luxembourg, Cyprus or Malta. Some EU member states have become ˝black˝ money laundering centres without being fiscal paradises such as Latvia, Poland or even Romania.

There are also ˝fiscal heavens˝ outside the Community absorbing important financial flows from the European Union, such as Liechtenstein, being one of the most old fiscal paradise from the world and offering the best services of private banking in the entire world. The case of Switzerland, very well known, constitutes a problem for the European Commission, fighting with the removal of Swiss fiscal system. Monaco is a fiscal paradise more oriented towards persons, as it is not charging incomes, dividends or direct line of successions or capital increase of persons. Thus, the lack of taxes has drawn a high number of ˝tax refugees˝ from the European Union, having money earned mainly outside of Monaco.

We consider that the current global economic and financial crisis is due partly to these ˝black holes˝ of global economy, because there exist many companies having repatriated their profits in offshore centres and, thus, the states they have invested in lost possible considerable budget resources, achieving a ˝chain˝ reaction: budgetary persons have no longer been well enough remunerated in order they may pay their loan rate, the banks confronted with serious financial problems because of many bad credits, leading to the release of global crisis. The lack of a political will to put an end to these ˝black holes˝ of financial globalisation makes them to flourish and to put into danger the global financial stability. The developed countries tolerated and are still tolerating the existence of these fiscal paradises because they assure profits to the large companies, but they don´t see the long term effects of this phenomenon. We cannot ignore the fiscal paradises when debating a global problem, taking into account the fact that analysts assert that about 70% of the tolerated monetary volume are circulating from the shade of fiscal paradises. Thus, as long as there are fiscal paradises, there will also exist economic crisis. Their cycles are legitimate as long as the problem of fiscal paradises is not removed.

4. Conclusions

By means of the European System Accounts (ESA95) it has been tried to bring to a common denominator the classification of national accounts and within the taxes and EU contributions. The European system of national and regional accounts is a compatible framework on international accountancy level for the systematic and detailed description of a total economy, as well as of its components and relations with other economies. ESA95 is according to the revised orientations from the entire world regarding accountancy at national level, System of National Accounts (1993 SNA, or simply SNA).[5]

Within the European Union´s common fiscal policy there exist also the tendency of modernizing Community and national regulations concerning VAT, as well as the stimulation from fiscal point of view of the research-development field or the resources use according to the Community principles of long-lasting development.

Since quite a long time, rumours are heard about the introduction of a common tax in the European Union which shall finance EU´s activity. But the institutional (especially the unanimity regulation of the member states discussed again in the Treaty of Lisbon), technical and political

[5] http://circa.europa.eu/irc/dsis/nfaccount/info/data/ESA95/en/titelen.htm

(fear from federalism and budgetary derivation) obstacles still remain numerous and, thus, the introduction of such a resource seems less realist for medium term.
Regarding the recently debated fiscal standardization, there exists a series of arguments for, among which: the necessity of fiscal debureaucratization, as a component of institutional debureaucratization; a step towards the legislative fiscal stability at national level; a state´s foreign business would adapt itself more easily to the economic environment of that country; many conventions at international level would no longer be necessary; the smoothing of fiscal legislation would support a better circulation of monetary capitals and, as a consequent, of the main three freedoms and, of course, the fact that there would be no longer divergence, fiscal contrasts at European level, between areas with high fiscal relaxation and those with too much fiscal pressure. Of course, this standardization would be carried into effect only after the ending of national fiscal reforms and only for long term. On Utopian scheme, a fiscal union would be established.

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