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Taxation trends in the EU

Rise in overall tax burden in the EU27 to 39.6% of GDP in 2005

Environmental tax revenues continue their downward trend

In 2005, the overall tax ratio[1] (i.e. the total amount of taxes and social security contributions) in the **EU27**[2] stood at 39.6% of GDP, up from 39.2% in 2004. The **EU27** tax ratio is nearly the same as in 1995 (39.7%); nevertheless, the ratio is lower than the peak of 41.0% in 1999. The downtrend which had started in 1999 in most countries stopped in 2005. In 2005 the overall tax ratio in the **euro area**[2] (EA13) was 39.9%, up from 39.6% in 2004. Since 1995 taxes in the **euro area** have followed a similar trend to the **EU27**, although at a slightly higher level.

EU tax levels remain generally high in comparison with the rest of the world, with the **EU27** tax ratio exceeding those of the **USA** and of **Japan** by some 13 percentage points. However, the tax burden varies significantly between Member States, ranging in 2005 from less than 30% in **Romania** (28.0%), **Lithuania** (28.9%), **Slovakia** (29.3%) and **Latvia** (29.4%) to more than 50% in **Sweden** (51.3%) and **Denmark** (50.3%).

In the past decade significant changes in tax ratios have taken place in several Member States. The largest falls were recorded in **Slovakia**, where the overall tax burden dropped from 39.6% in 1995 to 29.3% in 2005, and **Estonia** (from 37.9% to 30.9%). The highest increases were observed in **Cyprus** (from 26.7% to 35.6%) and **Malta** (from 27.3% to 35.3%).

This information comes from the publication '**Taxation trends in the European Union: Data for the EU Member States and Norway**'[3] issued by **Eurostat, the Statistical Office of the European Communities** and the Commission's **Directorate-General for Taxation and Customs Union**. This publication compiles tax indicators in a harmonised framework based on the European System of Accounts (ESA 95), allowing accurate comparison of the tax systems and tax policies between EU Member States.

This year's issue features a more detailed analysis of consumption taxation (breakdown of consumption taxes into their components: VAT, energy, alcohol and tobacco duties, and other taxes) and for the first time covers Bulgaria and Romania, which joined the EU on 1 January 2007.

Tax burden on labour broadly stable at a high level, while increasing on consumption and capital

For the **EU27** as a whole, the average implicit tax rate (ITR) on labour[4] (including social contributions), the preferred indicator for the average tax burden, amounted to 35.2% in 2005. The decline registered since the turn of the century stopped in 2005, despite a wide consensus on the desirability of reducing labour taxes. However, the tax burden is still lower than its maximum of 36.5% in 2000. Among the Member States, in 2005 this rate ranged from 22.1% in **Malta**, 24.6% in **Cyprus**, 25.5% in the **United Kingdom** and 25.6% in **Ireland** to 46.4% in **Sweden**, 43.1% in **Italy**, 42.8% in **Belgium** and 42.1% in **France**. In the new Member States **Bulgaria** and **Romania**, the rate amounted to 34.2% and 26.7% respectively. Despite the presence of a number of low taxing countries, taxation on labour is, on average, much higher in the EU than in the other main industrialised economies.

In contrast to the ITR on labour, the average implicit tax rate on consumption[4] in the **EU27** has been on the increase; it rose from 20.5% in 2001 to 22.1% in 2005. Consumption was most taxed in **Denmark** (33.7%), **Sweden** (28.1%) and **Finland** (27.6%), while the lowest implicit rates were registered in **Spain** (16.3%), **Lithuania** (16.5%) and **Italy** (16.9%). In **Bulgaria** and **Romania** the ITRs amounted to 24.6% and 18.5% respectively.

The average implicit tax rate on capital[4] in the **EU27** stood at 27.3% in 2005, up from 25.3% in 2004. There is considerable disparity in this ratio: among the Member States for which 2005 data is available, the highest implicit tax rates on capital were recorded in **Denmark** (46.5%), **Ireland** (41.4%) and **France** (38.9%), and the lowest in **Estonia** (8.1%) and **Lithuania** (11.4%), while **Latvia** registered 7.8% in 2004.

Labour taxes remain the largest source of tax revenue, representing around half of total tax receipts in the **EU27**. Taxes on capital accounted for approximately 22% of total tax receipts, and consumption taxes 28%.

Tax revenue and implicit tax rates* by type of economic activity

	Tax revenue, % of GDP			Implicit tax rate on:								
				Consumption			Labour			Capital		
	1995	2004	2005	1995	2004	2005	1995	2004	2005	1995	2004	2005
EU27**	**39.7**	**39.2**	**39.6**	**21.5**	**21.6**	**22.1**	**35.8**	**35.1**	**35.2**	**24.2**	**25.3**	**27.3**
EA13**	**39.9**	**39.6**	**39.9**	**20.9**	**21.6**	**21.8**	**36.0**	**36.2**	**36.8**	**23.4**	**28.4**	**30.4**
BE	43.8	45.0	45.5	20.6	22.0	22.2	43.8	43.0	42.8	25.3	33.9	34.5
BG	:	35.3	35.9	:	23.7	24.6	:	36.3	34.2	:	:	:
CZ	36.2	36.8	36.3	22.1	22.0	22.1	40.5	41.7	41.3	26.4	25.4	23.2
DK	48.8	49.3	50.3	30.5	33.3	33.7	40.1	37.4	37.3	30.0	46.2	46.5
DE	39.8	38.8	38.8	18.8	18.2	18.1	39.4	39.1	38.7	22.4	21.9	23.3
EE	37.9	31.4	30.9	20.6	20.5	23.8	39.2	35.2	33.1	24.7	8.9	8.1
IE	33.1	30.5	30.8	24.9	26.5	27.2	29.7	26.1	25.6	25.9	39.1	41.4
EL	32.6	34.3	34.4	17.6	17.6	17.0	34.1	37.9	38.0	11.8	15.4	:
ES	32.7	34.5	35.6	14.6	16.1	16.3	28.9	29.3	30.1	20.3	33.5	36.0
FR	42.7	43.1	44.0	21.5	20.2	20.2	41.2	41.4	42.1	31.2	36.9	38.9
IT	40.1	40.7	40.6	17.4	16.9	16.9	37.8	43.1	43.1	25.9	29.5	29.0
CY	26.7	33.5	35.6	12.1	19.4	19.3	23.1	22.8	24.6	:	:	:
LV	33.2	28.5	29.4	19.3	18.5	20.4	39.2	36.7	36.2	:	7.8	:
LT	28.6	28.3	28.9	17.7	16.0	16.5	34.5	36.0	35.9	15.1	10.8	11.4
LU	37.1	37.9	38.2	21.1	24.7	24.3	29.3	29.0	29.5	:	:	:
HU	41.6	38.6	38.5	30.9	27.7	26.5	42.6	39.9	40.5	:	:	:
MT	27.3	34.2	35.3	15.4	17.4	19.2	19.0	21.4	22.1	:	:	:
NL	40.2	37.7	38.2	23.2	24.9	25.4	34.4	30.6	30.7	21.2	22.1	21.2
AT	41.3	42.8	42.0	20.3	21.5	21.3	38.7	40.9	40.9	25.6	25.5	23.1
PL	37.1	32.6	34.2	21.3	18.7	19.8	35.9	34.7	35.5	21.5	20.7	22.2
PT	31.9	34.2	35.3	19.1	20.0	:	28.1	29.5	:	18.8	:	:
RO	:	27.3	28.0	:	16.8	18.5	:	28.1	26.7	:	:	:
SI	40.2	39.6	40.5	25.1	24.8	24.5	38.9	38.1	38.5	:	:	:
SK	39.6	29.7	29.3	27.1	21.5	21.9	39.5	35.7	33.7	33.5	16.0	14.4
FI	45.7	43.4	43.9	27.6	27.7	27.6	44.3	42.0	42.0	28.5	26.1	26.7
SE	49.0	50.5	51.3	27.9	27.6	28.1	48.4	46.4	46.4	17.5	:	:
UK	35.6	35.9	37.0	20.1	19.1	18.7	25.8	24.9	25.5	33.3	35.3	37.6
NO	41.9	43.8	44.3	30.2	26.4	27.1	37.8	39.1	39.4	:	:	:

Source: European Commission Services.

* Implicit tax rates (ITR) measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital. ITR express aggregate tax revenues as a percentage of the potential tax base for each field (see footnote 4).

** EU27 and EA13 overall tax ratios are computed on the basis of a GDP-weighted average. For all other indicators the aggregates are calculated as arithmetic averages of the Member States for which the respective annual data are available.

: data not available

Environmental tax revenues declined to lowest level in ten years

Despite intense public interest in environmental issues, environmental tax revenues have been declining since 1999; their 2005 level, 2.6% of GDP, is the lowest in ten years. This drop is due to lower energy taxation, as revenues from the other environmental taxes have remained stable.

Environmental tax revenue, % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Environmental taxes											
EU27*	2.8	2.8	2.8	2.8	2.9	2.8	2.7	2.7	2.7	2.7	2.6
EA13*	2.7	2.7	2.7	2.7	2.8	2.7	2.6	2.6	2.7	2.6	2.6
Energy taxes											
EU27*	2.1	2.1	2.1	2.1	2.2	2.1	2.0	2.0	2.1	2.0	1.9
EA13*	2.1	2.1	2.1	2.0	2.1	2.0	2.0	2.0	2.0	1.9	1.9

* GDP-weighted averages.

Top personal and corporate income tax rates on average lower in the new Member States

The top personal income tax rate differs substantially within the EU: the highest top rates[5] on 2006 personal income are found in **Denmark** (59.0%), **Sweden** (56.6%), the **Netherlands** (52.0%) and **Finland** (50.9%), and the lowest in **Romania** (16.0%), **Slovakia** (19.0%), **Estonia** (23.0%) and **Bulgaria** (24.0%).

As for corporate income tax, the highest adjusted top statutory tax rates[6] are recorded in **Germany** (38.7%), **Italy** (37.3%), **Malta** (35.0%) and **France** (34.4%), and the lowest in **Bulgaria** and **Cyprus** (both 10.0%), **Ireland** (12.5%) and **Latvia** (15.0%).

Over recent years top rates have shown a clear downward trend in the whole of the EU, particularly in the corporate area but also in the realm of personal taxation. On average, the new Member States display markedly lower top rates.

Top statutory personal income tax rate on 2006 income, %

RO	SK	EE	BG	LV	LT	CY	CZ	MT	HU	EU27*	LU	IT	EL	FR
16.0	19.0	23.0	24.0	25.0	27.0	30.0	32.0	35.0	36.0	**38.7**	39.0	39.0	40.0	40.0

PL	UK	DE	IE	PT	EA13*	ES	BE	AT	SI	FI	NL	SE	DK
40.0	40.0	42.0	42.0	42.0	**44.8**	45.0	50.0	50.0	50.0	50.9	52.0	56.6	59.0

Source: European Commission Services.

* Arithmetic average.

Adjusted top statutory tax rate* on corporate income in 2007, %

BG	CY	IE	LV	RO	LT	HU	PL	SK	EE	SI	CZ	EU27**	EL	AT
10.0	10.0	12.5	15.0	16.0	18.0	18.6	19.0	19.0	22.0	23.0	24.0	**24.5**	25.0	25.0

NL	FI	PT	DK	SE	EA13**	LU	UK	ES	BE	FR	MT	IT	DE
25.5	26.0	26.5	28.0	28.0	**28.5**	29.6	30.0	32.5	34.0	34.4	35.0	37.3	38.7

Source: European Commission Services.

* Adjusted top statutory tax rate on corporate income takes into account corporate income tax (CIT) and, if they exist, surcharges, local taxes, or even additional taxes levied on tax bases that are similar but often not identical to the CIT. In order to take these features into account, the simple CIT rate has been adjusted for comparison purposes.

** Arithmetic average.

1. The tax-to-GDP ratio measures the **overall tax burden** as the total amount of taxes and compulsory actual social security contributions as a percentage of GDP. This indicator is widely used to measure the overall tax burden but includes the taxes that are raised on social transfers. Because social transfer recipients often receive directly a net pay, they do not feel the burden of paying taxes. This definition differs slightly from the one used in the Statistics in Focus, Economy and Finance, 31/2007, "Tax revenue in the EU: Increases for the first time since 1999, to 40.9% of GDP" (see News Release 41/2007, 20 March 2007), which includes the voluntary and imputed social contributions. The difference between the two measures amounts to around 1½% of GDP for the EU and euro area aggregates.
2. **EU27**: Belgium (BE), Bulgaria (BG), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Romania (RO), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK). **Euro area** (EA13): Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia and Finland.
3. "**Taxation trends in the European Union: 1995-2005**", EUR 40 (excl. VAT), only available in English. This publication is based on data available on 1 February 2007. This report was until 2006 titled "Structures of the Taxation Systems in the EU". It can be purchased from authorised sales agents or downloaded free of charge in PDF format from the Eurostat or the DG TAXUD website:
   http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm
4. **Implicit tax rates** (ITR) measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital. ITR express aggregate tax revenues as a percentage of the potential tax base for each field.
   The *ITR on labour* is the ratio between taxes and social contributions paid on earned income and the cost of labour. The numerator includes all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income, while the denominator amounts to the total compensation of employees working in the economic territory increased by taxes on wage bill and payroll. It is calculated for employed labour only (so excluding the tax burden falling on social transfers, including pensions). The average may conceal important variations in the tax burden across the income distribution.
   The *ITR on consumption* is the ratio between the revenue from consumption taxes and the final consumption expenditure of households on the economic territory.
   The *ITR on capital* includes, in the numerator, the taxes levied on the income earned from savings and investments by households and corporations and taxes related to stocks of capital stemming from savings and investment in previous periods. The denominator of the capital ITR is a proxy of the world-wide capital and business income of Member States' residents for domestic tax purposes. Trends in the capital ITR reflect a wide range of factors and it should be interpreted with caution.
   All ITRs for the EU and the euro area are calculated as arithmetic averages.
5. The **top statutory personal income tax rate** reflects the tax rate for the highest income bracket without surcharges. For Denmark, Finland and Sweden the municipal income tax is also included.
6. The **adjusted top statutory tax rate on corporate income** takes into account corporate income tax (CIT) and, if they exist, surcharges, local taxes, or even additional taxes levied on tax bases that are similar but often not identical to the CIT. In order to take these features into account, the simple CIT rate has been adjusted for comparison purposes.

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