

Chapter 10

The Room for National Tax Policy in the Future Europe

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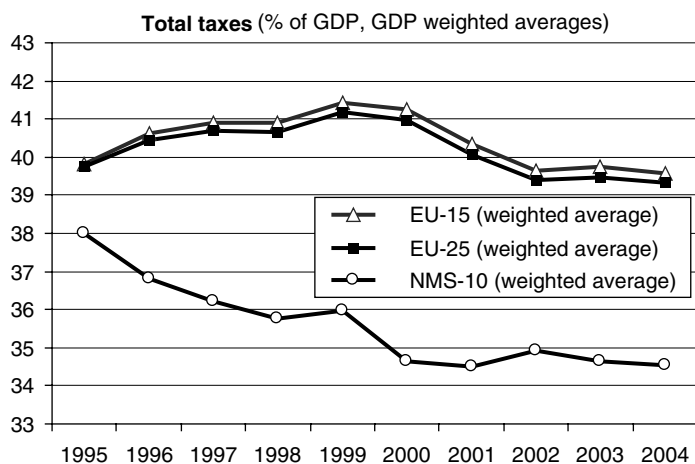
10.1 Introduction

The research question we address in this book concerns the potential scope for national tax policies within the European Union in the years to come. As demonstrated in the book the question can be tackled from many angles and be analyzed in several ways. The tax systems of the 27 Member States of the enlarged European Union vary widely and are very complex. However, the comprehensive and harmonized framework of the European system of national and regional accounts (ESA95), which is now adopted throughout Europe, has improved the possibilities for comparisons of individual countries' tax revenues at different levels of aggregation.

A first search for trends will provide us with indications about the direction in which the tax situation is heading. However, there is a considerable lag with which data are published. The most recent year for which data is available is 2004 (European Commission, 2006). Below we show the trends for the variables that are most important for the understanding of the magnitude of the potential scope for national tax policy.

We start with the total tax ratio (inclusive of social security contributions) and find as shown in Fig. 10.1 that this ratio in 2004 amounts to 39.3% for the EU-25 (GDP-weighted average). During the five-year period prior to that year, the ratio trend-wise declined by about 0.3 percentage points. The EU-25 weighted average is fairly unchanged as compared to the situation 10 years earlier. The total tax ratio is high in an international comparison and about 14 percentage points higher than those ratios recorded in the US and Japan. The gap to these countries has remained fairly unchanged following from the fact that they as well have reduced their tax ratios during the period. The overall impression is therefore that the EU remains one of the highest taxed areas in the world.

However, the total tax ratio differs substantially between the individual EU-member countries as shown in Table 10.1. A few trends can be observed. For instance, new member states (NMS-10) have on average lower tax ratios (see Fig. 10.1). Moreover, some of the biggest declines from 1995 are found in these member states. Malta and Cyprus are two exceptions with substantial increases (more than 7%) in the period.

**Fig. 10.1.** Total taxes in the EU**Table 10.1.** Total taxes in the EU – individual countries

Tax/GDP (%)	2004	%-pt ch. since -95
Belgium	45.2	1.4
Czech rep	36.6	0.4
Denmark	48.8	0.0
Germany	38.7	-1.1
Estonia	32.6	-5.3
Greece	35.1	2.4
Spain	34.6	1.9
France	43.4	0.7
Ireland	30.2	-2.8
Italy	40.6	0.6
Cyprus	34.1	7.2
Latvia	28.6	-5.0
Lithuania	28.4	-0.2
Luxembourg	40.1	-2.3
Hungary	39.1	-2.6
Malta	35.1	7.6
Netherlands	37.8	-2.7
Austria	42.6	1.3
Poland	32.9	-5.6
Portugal	34.5	2.6
Slovenia	39.7	-0.6
Slovakia	30.3	-10.1
Finland	44.3	-1.3
Sweden	50.5	1.5
United kingdom	36.0	0.7