Comparation and Overall Assessment and the Criteria to the Various Possible EU Taxes

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Abstract
In this article, the various possible EU taxes are compared with regard to each of the criteria: budgetary, efficiency and equity criteria. Setting an equalisation mechanism to replace or complement the current GNI contribution could thus be a useful complement to tax autonomy in the context of a reform of the current own resource system.

Key words: budgetary criteria, equity criteria, efficiency criteria, accession by the EU, public administration or civil services, tax rate, tax basis, fiscality

In this article, the various possible EU taxes are compared with regard to each of the criteria:

- budgetary criteria (sufficiency and stability),
- efficiency criteria (visibility, low operating costs and efficient allocation of resources),
- equity criteria (horizontal equity, vertical equity and fair contributions),

Table 1 below summarises the assessment made in the previous section.

The budgetary criteria are of critical importance in determining the appropriate new European own resource. The stability criterion is important with regard to the financial autonomy of the EU. Sufficiency indicates whether a given resource is sufficient to finance the whole budget.

a) Sufficiency - Three of the possible EU taxes seem to offer prospects to fully cover the needs of the Community, including in the longer run prospect: the modulated VAT, the personal income tax and energy taxation.

Several other resources could bring about substantial revenues but these would probably be insufficient to fully cover the EU needs.

In principle, this problem of revenue insufficiency can be overcome by combining several resources, including contributions from the Member States, to make up for the needs of the EU budget.

b) Stability - Four of the nine possible EU taxes – the modulated VAT, energy taxation, personal income tax and excise duties on tobacco and alcohol – would satisfy the criterion of stability.

The other possibilities offer a moderate or limited stability in the short-run, in general due to their sometimes strong link to the business cycle. In the absence of financial autonomy, EU resources could therefore be too limited in years of slow economic growth and could tend to exceed the needs in times of prosperity.
Developing a flexibility mechanism on the revenue side to complement tax autonomy could be necessary. This mechanism could consist in either allowing financial autonomy or variable transfers from the Member States to ensure a balanced budget.


Overall, in order to achieve stability, sufficiency and permitting and effective tax autonomy, it might therefore be appropriate to combine taxes with other resources, such as Member States contributions, and envisage a certain degree of financial autonomy.

Efficiency criteria - The constraints related to the budgetary framework are of significant importance, as is illustrated above. Nevertheless, the assessment of the EU taxes
must also rest on other arguments. In this respect, efficiency criteria are of critical importance.  

a) *Visibility* - Several of the assessed taxes would respect to a large extent the visibility criterion. This is in particular the case for the modulated VAT and the personal income tax. Only the transfer of seigniorage revenue and the tax on financial transactions would clearly lack visibility to the public at large.

b) *Low operating costs* - In general, the operating costs would not create a major or insurmountable issue, except for one scenario of harmonised personal income tax. In some cases, the tax could lead to an actual improvement upon the current situation or to costs that could be negligible. This is for example the case for the transfer of seigniorage revenue or the corporate income tax.

In some cases, there can be a trade-off between low operating costs and high visibility. This has been illustrated for the proposal on EU excises on alcohol and tobacco. Increasing the visibility of the tax may impose a cost on the seller or the consumer.

c) *Efficient allocation of resources* - Corporate income tax, energy taxation and a climate charge on aviation could have an impact on, and help foster EU policies. This is due to the numerous cross-border externalities observed in the related areas. Furthermore, in the case of the transfer of seigniorage revenue, the tax could probably be raised in a fairly efficient, non-distortive way.

In some cases, the tax should be seen as an instrument to raise revenues rather than as an instrument to achieve Community policies. However, in the case of the tax on financial transactions and the communication tax, the tax could prove detrimental to the proper allocation of capital and investment in the EU.

**Equity criteria** - The economic assessment of the assignment of a tax to a given level of government also very much depends on equity issues.

a) *Horizontal equity* - The horizontal equity primarily depends on the degree of harmonisation of the tax base. Where there is full harmonisation, horizontal equity is achieved, while in the other cases, one should expect equivalent EU citizens to be taxed in different ways. It has been assumed in a number of cases that harmonisation would be achieved. Therefore, most taxes examined above accordingly respect to a high degree the criterion. However, it is far from obvious that actual harmonisation would be achieved in some cases. This is for instance illustrated by the failure to complete harmonisation for the VAT in the Community despite decades of efforts. The current degree of harmonisation offers limited indications on the level of harmonisation that could be reached in the future, e.g. for the personal income tax.

b) *Vertical equity* - Vertical equity is also a major issue when it comes to designing a tax structure. In general, priority is given to a tax system that allows for some kind of interpersonal redistribution.

In this respect, the communication taxation, the tax on financial transactions and the climate charge on aviation, which would be new EU taxes, would respect the criterion to a large extent. Indeed, these taxes would mainly be a burden on relatively wealthy people and the revenues raised would allow for a corresponding decline in Member States contributions and taxes. A number of other taxes would also respect this criterion, albeit to a lower extent. Only excise duties on tobacco and alcohol would bear to a relatively large
extent on poorer households, thereby possibly decreasing the overall progressiveness of taxation in the EU.

c) Fair contributions - The criterion would be respected to a large extent for the communication taxation, the personal income tax and the climate charge on aviation. The other taxes would in all likelihood not fully respect this criterion. This would in particular be the case for excise duties on alcohol or tobacco. This means that should these taxes be the main source of finance of the EU budget the revenue collected in some of the Member States would be relatively high considering their level of economic development compared to other Member States. This result is not surprising given the diversity characterising the economic and tax structures of the Member States.

It should be noted that a possible solution to unequal distributions of the tax base would be to set up some form of equalisation mechanism to adjust the Member States' contributions according to the amount of tax collected on their territory and other relevant variables. Equalisation mechanisms are found in numerous federal systems, as well as in decentralised States. They are inherent to State structure when there are differences in needs and resources across "regions".

Setting an equalisation mechanism to replace or complement the current GNI contribution could thus be a useful complement to tax autonomy in the context of a reform of the current own resource system.

References
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