FISCALITY IN THE WAGE POLICIES OF SOME EU MEMBER STATES

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Abstract:

Presently, there is no fully integrated fiscal system within the European Union. This bears on the manner in which the same fiscal policy decision is employed in each EU member state. The fiscal reforms were different, in most member states, both in terms of coverage and in terms of depth. These fiscal reforms meant either the implementation own fiscal policies of the individual EU member states, by increasing or reducing the fiscal burden, or the implementation of elements of European fiscal policy, in agreement with EU constraints or recommendations. This aspect has also been noticed in the fiscality of the wage policies, even though they still are the appanage of each member state.

Key words: fiscality, wage policy, fiscal system, integrated fiscal system

JEL classification codes: E62, J58,

Introduction

In a market economy, the taxation system is one of the most important instruments of fiscal policy which the state uses in its social and economic activities (Ioneci M., Marcu N., 2007). These measures have multiple implications, both for the taxpayers, and for the public decision-makers. The first efforts of fiscal harmonization aimed the indirect taxes, with the purpose to remove the obstacles to the free circulation of the goods, services and capitals, as well as to remove the border checks and to limit the unlawful fiscal competition between countries.

Fiscal harmonization was slower in the field of direct taxation, the main aim was not to interfere with the free competition on the market, to minimise the possibilities evasion and to avoid double taxation, on the basis of bilateral agreements between the member states, and particularly to avoid the transfer of the taxation basis through the phenomenon of business migration in search of the most favourable taxation regime.

The accomplishment of the objectives in the field of direct taxation harmonization was hindered by two obstacles: on the one hand, it was the rule of unanimity, which presumes that all EU member states must agree a community decision in matters of taxation (taxation basis or rate); on the other hand, because of a lack of convergent views on the limits of this action (structure of the taxation basis or maximal/minimal limits of the taxation rates).

The first proposals for the harmonization of the taxation rates have been formulated in the reports of “Neumark” (1963) and “Van den Tempel” (1971) committees, but they didn’t materialize.

It is known that significant differences of fiscal philosophy exist within the EU in matters of the structure of taxes within the total fiscal revenues. While the developed states have fiscal systems focused on direct taxes, the less developed states, particularly the new member states, use fiscal systems focused on indirect taxes and on high social contributions.

A study on the process of fiscal harmonization within the EU, shows that although there is a fiscal strategy with common objectives, the accomplishment of these objectives differs, the member states still using their prerogatives of fiscal sovereignty.

Our study aimed to make an analysis, based on indicators, on selected EU member countries, of the manner in which the wages and the incomes, in general, for the natural persons, are levied.

With this purpose, we decided, based on the relevance of indicators, to use the following data: human development index (HDI), unemployment rate and the GDP, which to picture the level of economic development, thus allowing us to select countries based on this point of view.

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By comparing the used indicators, mainly the HDI (complex indicator which covers not just quantitative, but also qualitative aspects of the economic development), we made a classification according to the two levels that are also used by the calculation methodology of the HDI:

Member states with highly developed economy:**Germany, France, United Kingdom, Netherlands, Denmark**

Member states with developed economy **(states with transition economy, former socialist states): Hungary, Bulgaria, Romania.**

These are the EU member states surveyed, in our study, regarding their fiscal policy.

Conclusions

Income taxation, in the very developed countries, is done withprogressive rates.

- On the top positions, in terms of the marginal rates, are **Denmark (8 to 56.4)** followed by the **Netherlands (8 to 52), France (0 to 49.58), United Kingdom** and **Germany (0 to 45)**.
- As a general rule, we can notice that all three former communist countries, use flat rate taxation, with the lowest taxation rate in **Bulgaria (10%)**, followed by **Romania** and **Hungary**, with the same taxation rate **(16%)**.
- In the European Union, the lowest taxation rate is in Bulgaria (10%), while the highest taxation rate is in Sweden and Denmark (55%).

Significant differences also occur in the***social contributions***.

- In **Germany**, they are generally paid about half by the employer and half by the employee, up to a particular level (**employer, 23.657%; employee, 20.72%**). Besides this, the employees pay an additional contribution for health social insurance (0.9%), while the employees with no children pay an additional 0.25% for healthcare insurance.
- In **France**, the social insurance contribution of the **employers** are rather high, ranging between **39.62% and 52.62%** (in particular situations), while the contribution of the **employees** range from **18.55% to 25.15%**. There also is an additional 14% (applied to the minimal wage, for the SMEs with less than 20 employees).
- As we have seen, the **United Kingdom** has very low social insurance contributions, **13.8% for the employer** and **12% for the employee**.
- The fiscal policy of **Bulgaria** shows, besides the lowest taxation rate in EU, 10%, the lowest social insurance contributions (**12.9% for the employee, and 17.9% for the employer**).
- In **Romania**, these contributions are rather burdensome, both for the **employee** (**16.5%**), and for the **employer** (**22.6%** under normal working conditions, and **32.6%,** for the special working conditions).
- **Hungary** is one of the countries with well-set contributions both for the **employer, 28.5%**, and for the **employee, 18.5%.**

The analysis of the percentages and of the differences between countries shows that for a refined evaluation we need to take into account several aspects: existence of the progressive taxation rates in some countries, or of the flat rate in other countries, the eligibility criteria for fiscal deductions, exemption and other benefits, which are rather different between the particular countries, etc..

After seeing all this, we may wonder: is it better to have progressive taxation rates, and why?

- A possible answer might be that the progressive taxation works as an automatic fiscal stabilizer, bringing revenues to the budget, for any increase of the incomes, without any other intervention, discretionary or not.
- Relaxation of work taxation is called for, which would cause the taxation bases to migrate from the non-fiscal area to the fiscal area.
- The major interest, in setting any taxation pattern, is to define the expectations. Do we settle for a higher taxation, which brings important revenues to the state budget, which are subsequently redistributed to finance the services that will return to the taxpayers (education, healthcare, culture, etc.), or do we settle for fiscal relaxation, which leaves more money to the taxpayer, so that he/she can manage its own needs. The option is for a

taxation pattern which secures revenues for the state, so as the state can render as many as possible free or heavily subsidized services.

- Too high fiscal pressure must be, generally, avoided, because it may result in tax evasion, by migration of the taxation bases towards the non-fiscal area.

Finally, no matter what type of fiscal pattern we may have, if the levying and collection mechanisms don't work, the fiscal policy targets will not be accomplished.

- Urgent measures have to be taken to remove the fiscal barriers. Taxation of the enterprises and of the natural persons is the attribute of the member states; however, an important issue of the present moment is that, in accordance with the European norms, no state should raise barriers hindering mobility in Europe.
- The persons settling in a different EU member state, or the societies investing abroad, might have to pay taxes at least in two different countries, or might be confronted with complicated administrative procedures. This situation is often encountered, and the European norms didn't clarify these issues definitely.
- Most EU member states concluded treaties to avoid double taxation, but these cannot cover all cross-border taxes or situations. The European Commission acts in several ways to solve these problems.

The important changes of the fiscal environment in the Central and Eastern Europe, in 2013-2016, display a persistent trend of slight decrease of the direct taxation in this region.

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