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New report on taxation in the EU from 1995 to 2004

Small decline in overall taxation to 39.3% of GDP in 2004

Tax burden on labour remained broadly stable

In 2004, the overall tax ratio[1] (i.e. the total amount of taxes and social security contributions) in the **EU25**[2] stood at 39.3% of GDP. Compared to the year before, the weighted average declined by 0.2 percentage points, restarting the gradual downward trend that had been apparent since the turn of the century, but which had been interrupted in 2003. The decline is due essentially to developments in the **euro area**, notably to marked declines in **Germany** and **Italy**.

EU tax levels remain generally high in comparison with the rest of the world; the **EU25** tax ratio exceeds those of the **USA** and of **Japan** by some 14 percentage points. However, the tax burden varies significantly between Member States, ranging in 2004 from 28.4% in **Lithuania** and 28.6% in **Latvia** to 50.5% in **Sweden** and 48.8% in **Denmark**. Generally, the new Member States tend to have lower tax ratios; however **Ireland** (30.2%), **Portugal** (34.5%) and **Spain** (34.6%) also display notably low overall tax ratios.

In the past decade significant changes in tax ratios have taken place in several Member States. The largest falls have been for **Slovakia**, where the overall tax burden dropped from 40.5% in 1995 to 30.3% in 2004, **Poland** (from 38.5% to 32.9%) and **Estonia** (from 37.9% to 32.6%). The highest increases were noted for **Malta** (from 27.6% to 35.1%) and **Cyprus** (from 26.9% to 34.1%). Overall, given also that in many Member States tax ratios have shown little change, **EU25** tax levels are nearly the same as they were in 1995 (39.7%); nevertheless, the ratio has shown a non-negligible decrease from a peak of 41.2% in 1999.

This information comes from the publication **'Structures of the taxation systems in the European Union: 1995-2004'**[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.

Implicit tax ratios indicate shifts in the tax burden falling on labour and consumption

For the **EU25** as a whole, the average implicit tax rate (ITR) on labour[4], the preferred indicator for the average tax burden, amounted to 35.9% in 2004. On average, ITRs on labour saw little change from the year before, despite a wide consensus on the desirability of reducing labour taxes. The **EU25** average is likewise nearly unchanged from its 1995 level (35.7%) although a slight decrease was recorded from its maximum of 36.2% in 2000. Among the Member States, in 2004 this rate ranged from 23.1% in **Cyprus**, 23.9% in **Malta** and 24.8% in the **United Kingdom** to 45.9% in **Sweden**, 43.0% in **Belgium** and 42.4% in **France**. Despite lower overall tax ratios, the new Member States on average show a roughly similar ITR on labour as the EU25.

In contrast to the nearly stable ITR on labour, the average implicit tax rate on consumption[4] in the **EU25** has been on the increase; it rose from 20.8% in 2001 to 21.9% in 2004. The 2004 increase is the third in a row. Consumption was most taxed in **Denmark** (33.3%), **Hungary** (28.6%) and **Finland** (27.9%). At the other end, **Spain** (16.0%), **Italy** (16.8%) and **Malta** (17.0%) registered the lowest implicit rates.

The average implicit tax rate on capital[4] in the **EU25** increased steadily from 23.1% in 1995 to 27.7% in 2000, then fell to 25.8% by 2003 (2004 data are missing for several Member States). There is considerable disparity in this ratio: among the Member States, the highest implicit tax rates on capital were recorded in **Denmark** (43.8% in 2004), **France** (36.9% in 2004), the **United Kingdom** (34.9% in 2004) and **Belgium** (34.8% in 2004) and the lowest in **Lithuania** (6.8% in 2003), **Latvia** (9.3% in 2003) and **Estonia** (10.3% in 2003).

Labour taxes remain the largest source of tax revenue, representing around half of total tax receipts in the **EU25**. 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	**2003**	**2004**	**1995**	**2003**	**2004**	**1995**	**2003**	**2004**	**1995**	**2003**	**2004**
EU25*	**39.7**	**39.5**	**39.3**	**21.1**	**21.3**	**21.9**	**35.7**	**35.6**	**35.9**	**23.1**	**25.8**	**:**
Euro area*	**39.9**	**40.0**	**39.7**	**20.3**	**20.9**	**21.5**	**35.7**	**36.3**	**36.6**	**23.6**	**29.2**	**:**
BE	43.8	44.9	45.2	20.4	21.0	21.8	43.8	43.0	43.0	25.5	33.8	34.8
CZ	36.2	36.0	36.6	22.4	19.8	22.2	40.1	41.4	41.5	23.9	23.6	:
DK	48.8	47.6	48.8	30.5	33.0	33.3	40.1	38.0	37.4	30.0	35.0	43.8
DE	39.8	39.6	38.7	18.8	18.6	18.1	39.4	40.3	39.2	22.4	21.6	21.7
EE	37.9	32.9	32.6	20.3	20.3	20.8	39.2	38.2	37.6	17.9	10.3	:
EL	32.6	36.4	35.1	17.3	18.0	17.5	34.1	41.2	37.9	12.1	17.4	17.0
ES	32.7	34.0	34.6	14.1	15.9	16.0	28.9	29.4	29.4	20.4	31.0	:
FR	42.7	43.1	43.4	21.9	20.5	20.7	40.8	41.4	42.4	31.7	37.0	36.9
IE	33.1	29.0	30.2	24.9	25.3	26.5	29.7	25.0	26.3	22.1	31.7	34.3
IT	40.1	41.5	40.6	17.2	16.5	16.8	37.9	42.1	42.0	26.1	30.8	28.8
CY	26.9	33.3	34.1	12.2	18.7	19.0	22.5	22.9	23.1	:	:	:
LV	33.6	28.5	28.6	19.1	17.4	17.5	39.2	36.5	36.3	:	9.3	:
LT	28.6	28.2	28.4	17.7	18.9	18.1	34.5	36.9	37.0	9.1	6.8	:
LU	42.4	40.9	40.1	21.7	23.4	25.7	29.5	28.7	29.0	24.8	27.2	26.0
HU	41.6	39.0	39.1	30.9	27.3	28.6	42.6	40.9	40.8	:	:	:
MT	27.6	32.2	35.1	14.6	15.2	17.0	21.8	22.6	23.9	:	:	:
NL	40.5	37.5	37.8	22.5	23.1	23.9	35.1	31.0	31.0	23.4	30.8	:
AT	41.3	43.0	42.6	20.3	21.4	21.6	38.7	40.9	40.7	25.6	25.3	25.3
PL	38.5	33.3	32.9	21.8	19.0	19.3	37.9	34.6	:	:	20.3	19.4
PT	31.9	35.1	34.5	18.3	19.0	:	27.5	29.8	:	21.3	35.3	:
SI	40.2	39.4	39.7	25.1	24.7	24.4	38.9	37.9	37.8	:	:	:
SK	40.5	31.3	30.3	:	19.4	:	:	36.5	:	:	20.5	:
FI	45.6	44.6	44.3	26.6	28.1	27.9	43.4	42.3	41.9	28.0	28.6	28.2
SE	49.0	50.2	50.5	27.7	27.5	27.6	46.8	45.7	45.9	18.7	:	:
UK	35.4	35.5	36.0	19.6	18.8	18.7	25.7	24.3	24.8	33.3	33.7	34.9
NO	42.3	42.9	:	31.1	29.2	:	37.8	38.9	:	:	:	:

Source: European Commission Services.

* EU25 and euro-zone 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. Slovakia excluded from the averages for the implicit tax rates.

: data not available

Top rates on average lower in new Member States

In 2006 the highest top statutory personal income tax rates[5] are found in **Denmark** (59.0%), **Sweden** (56.6%), the **Netherlands** (52.0%) and **Finland** (51.0%), and the lowest in **Slovakia** (19.0%), **Estonia** (23.0%), **Latvia** (25.0%) and **Cyprus** (30.0%).

As for the corporate income tax[6], the highest adjusted top statutory tax rates are recorded in **Germany** (38.6%), **Italy** (37.3%), **Spain** and **Malta** (both 35.0%), and the lowest in **Cyprus** (10.0%), **Ireland** (12.5%), **Latvia** and **Lithuania** (both 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 in 2006, %

SK	EE	LV	CY	CZ	LT	MT	HU	LU	EL	PL	PT	UK	EU25*
19.0	23.0	25.0	30.0	32.0	33.0	35.0	38.0	39.0	40.0	40.0	40.0	40.0	**41.0**

DE	IE	IT	ES	Euro area*	FR	BE	AT	SI	FI	NL	SE	DK
42.0	42.0	43.0	45.0	**45.2**	48.1	50.0	50.0	50.0	51.0	52.0	56.6	59.0

Source: European Commission Services.

* Arithmetic average.

Adjusted top statutory tax rate on corporate income in 2006, %

CY	IE	LV	LT	HU	PL	SK	CZ	EE	AT	SI	EU25*	FI	PT
10.0	12.5	15.0	15.0	17.5	19.0	19.0	24.0	24.0	25.0	25.0	**25.9**	26.0	27.5

DK	SE	EL	NL	LU	Euro area*	UK	FR	BE	ES	MT	IT	DE
28.0	28.0	29.0	29.0	29.6	**29.7**	30.0	33.3	34.0	35.0	35.0	37.3	38.6

Source: European Commission Services.

* Arithmetic average.

Share of environmental taxes in total taxation falling overall, but increasing in several new Member States

In the last years, reliance on environmental taxes has been weakening in the EU25, as the share of revenue accounted by them has been decreasing; on the other hand, clear increases have been recorded in the majority of the 10 new Member States. **Cyprus** (11.9%) had the highest proportion of environmental taxes on the total in 2004, followed by the **Netherlands** (10.3%) and **Denmark** (9.8%). The lowest proportion was found in **France** (4.9%), **Belgium** (5.3%) and **Sweden** (5.7%). Energy taxes represented by far the largest component of environmental taxes, accounting for three quarters of the total.

Environmental taxes as % of total tax revenue

	Total		Of which:					
			Energy taxes		Transport taxes		Pollution and resources taxes	
	1995	2004	1995	2004	1995	2004	1995	2004
EU25*	**7.0**	**6.6**	**5.4**	**5.0**	**1.4**	**1.4**	**0.2**	**0.2**
Euro area*	**6.9**	**6.4**	**5.3**	**4.7**	**1.4**	**1.4**	**0.2**	**0.2**
BE	5.2	5.3	3.6	3.4	1.3	1.5	0.4	0.4
CZ	8.0	7.5	6.4	6.7	1.0	0.7	0.6	0.1
DK	9.0	9.8	4.4	5.2	4.2	4.0	0.4	0.7
DE	5.8	6.5	4.9	5.6	1.0	0.9	0.0	0.0
EE	2.0	6.7	1.6	5.7	0.5	0.1	0.0	0.9
EL	10.7	6.8	8.5	4.0	2.2	2.8	0.0	0.0
ES	6.7	5.8	5.4	4.6	1.2	1.2	0.0	0.0
FR	6.6	4.9	4.7	3.2	1.5	1.3	0.4	0.4
IE	9.2	8.1	5.2	4.4	3.9	3.8	0.1	0.0
IT	9.0	6.9	7.8	5.6	1.1	1.3	0.0	0.0
CY	10.7	11.9	2.0	6.2	8.7	5.7	0.0	0.0
LV	3.2	9.1	3.1	7.5	0.0	1.2	0.2	0.4
LT	4.2	6.9	4.0	6.3	0.0	0.3	0.1	0.3
LU	8.0	8.2	7.6	7.9	0.4	0.3	0.0	0.0
HU	7.5	:	6.5	:	0.5	:	0.5	0.6
MT	11.8	9.2	3.2	3.8	8.7	5.4	0.0	0.1
NL	9.0	10.3	4.2	5.3	3.3	3.4	1.5	1.6
AT	5.1	6.2	3.4	4.3	1.7	1.9	0.0	0.1
PL	5.3	6.9	5.3	6.5	0.1	0.5	0.0	0.0
PT	10.9	:	8.1	:	2.8	:	0.0	:
SI	:	8.7	:	6.7	0.6	1.3	0.2	0.6
SK	:	:	:	:	:	:	:	:
FI	6.1	7.4	4.5	4.4	1.6	2.8	0.0	0.1
SE	5.7	5.7	5.0	4.9	0.7	0.6	0.1	0.1
UK	8.3	7.3	6.6	5.8	1.7	1.3	0.0	0.2
NO	10.6	:	2.5	:	5.7	:	2.4	:

Source: European Commission Services.

* GDP-weighted average.

: data not available

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, 2/2006, "Tax revenue in the EU: Down slightly to 40.7% of GDP" (see News Release 16/2006, 10 February 2006), which includes the voluntary and imputed social contributions. The difference between the two measures amounts to around 1 ½ % of GDP.
   Compared to the figures on overall tax burden published in the last edition of Structures of the taxation systems in the European Union, (see News Release 134/2005 of 21 October 2005) data have been revised.
2. **EU25**: Belgium (BE), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Greece (EL), Spain (ES), France (FR), Ireland (IE), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK).
3. "**Structures of the taxation systems in the European Union: 1995-2004**", ISBN 92-79-01850-7, EUR 25 (excl. VAT), only available in English. The publication is available free of charge in PDF format on the Eurostat website

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.
   ITR on labour considers all personal income taxes, payroll taxes and compulsory social security contributions as labour tax revenues and, as the tax base, the total amount of compensation of employees in the economy. The average may conceal important variations in the tax burden across the income distribution.
   ITR on consumption considers taxes levied on transactions between (final) consumers and producers and on the (final) consumption of goods. The tax base is defined as the final consumption expenditure of households on the economic territory.
   ITR on capital includes 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 aims to approximate the world-wide capital and business income of Member States' residents for domestic tax purposes. Trends in this capital ITR reflect a wide range of factors and it should be interpreted with caution.
   All ITRs for the EU25 and the euro area are calculated as arithmetic averages.
5. **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. **Adjusted top statutory tax rate on corporate income** reflects the non-targeted rate (the adjustment refers to the inclusion of surcharges and averages of local taxes in the rate). For Estonia the rate refers only to distributed profits; as from 2000 the tax rate on retained earnings is zero. The rate for Italy includes ‘IRAP’ (rate 4.25%) a local tax levied on a tax base broader than corporate income.

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