

Fiscal Harmonization and Economic Integration in the European Union

Eduardo Cuenca Garcia, Margarita Navarro Pabsdorf, Antonio Mihi-Ramirez

University of Granada

Campus Cartuja s/n, 18071, Granada, Spain

e-mail: ecuenca@ugr.es, pabsdorf@ugr.es, amihi@ugr.es

crossref <http://dx.doi.org/10.5755/j01.ee.24.1.3503>

Since the foundation of the European Economic Community there is an incessant debate about the necessity of an overall tax and fiscal cooperation and harmonization in Europe, which recently has been intensified mainly because of EMU. By reviewing the literature, this article argues that closer cooperation in tax issues, for both indirect and direct taxation, needs to accompany the current state of integration in the EU.

Advances have taken place in indirect taxes, value added tax (VAT) and excises. With respect to VAT, the major agreements were achieved with the Sixth VAT Directive (1977) and the agreements on rates after the elimination of the frontier controls (1992). In the case of excise duties, the progress have been less significant and there can be noted only the agreements of minimum rates for alcohol, tobacco and energy (fuels). In direct taxation, it is necessary to point out that the powers are national and the EU is limited to guaranteeing the performance of the single market. Community legislation is centered on company taxation and the taxation of savings income.

Taxes and social security contributions strongly influence patterns of saving, consumption, investment and employment, and thus shape the operation of markets for goods, services, capital and labor. The reforms launched by the Cardiff European Council of June 1998 are designed to ensure that the differences between systems that have become even more apparent since the introduction of the euro do not hamper trade, result in fragmentation of the single market or prevent the efficient allocation of resources.

Tax fraud is another problem of increasing concern in the Community. European Parliament and Council Decision 888/98/EC instituted a program (Fiscalis) to improve the operation of indirect taxation systems in the single market and to secure wide-ranging and effective cooperation between Member States and with the Commission, and to improve administrative practice. International VAT fraud, particularly on sales and deliveries within the EU, has led to serious losses of revenue.

Only through closer coordination of national tax policies a balance can be struck between the diversity of Member States' tax and social contribution systems and the right to the freedom of establishment and movement throughout the EU. In a monetary union, with one currency and common policies, a larger harmonization and coordination of the fiscal policies are forced.

Keywords: *Tax harmonization, tax system, VAT, direct tax, indirect tax, European Integration, Stability and Growth Pact.*

Introduction

Processes of economic integration must be accompanied by rules of harmonization and fiscal coordination among the countries involved. The degree and form of desirable harmonization and coordination depend on diverse factors.

Tax harmonization has been and will continue to be a matter of interest in the EU as an instrument to reach the objective of a single market or the European political union. For that harmonization, there are two main strategies: the competitive, based on fiscal competition, and the institutional, based on agreements of the member States and due to the difficulties of the agreement, the former has been the predominant strategy. Governments set tax rates on company profits, personal income, savings and capital gains but the EU just deal that they are fair to the EU as a whole, ensuring national tax rules are consistent with the EU's goals and do not impede the free flow of goods, services and capital around the EU, or give advantage over competitors.

Additionally, the level of economic integration reached is relevant; market integration in an initial stage requires measures in order to eliminate tax that limit the possibility of economic agents, remove obstacles to the free movement of factors of production in the new economic area, and distortions in the efficient allocation of resources to prevent efficiency loss (Staciokas & Valanciene, 2002).

Establishing a monetary union, with one currency and common policies, forces a larger harmonization and coordination of the fiscal policies since the differences in the tax charges promote harmful effects in this context of common interest rate. However, the member States resist losing control of such an important part of their sovereignty and generally put limits on this harmonization invoking the principle of the subsidiarity, just as no community standard rules should transcend the limits that establish the objectives of the single market. The short margin in the fiscal policy is the only one stabilization instrument in the Euro zone after giving up the monetary

competences and the limitations from the Stability and Growth Pact.

Some of the main questions to solve are: is tax harmonization useful? Is tax coordination necessary? These topics have been studied by a large number of authors with differing conclusions (Wilson, 1999; Eggert & Genser, 2001; Staciokas & Valanciene, 2002; Sorensen, 2004; Auerbach 2006, Baldwin & Wyplosz, 2003; Baldwin & Krugman, 2004; Jonung *et al.*, 2008; Jakstonyte & Boguslauskas, 2010; Chea, 2012; Jensen & Tarr, 2012).

Research object is tax policies harmonization in the European Union.

The aim of the paper is to analyze the main issues involved with the tax harmonization in the European Union.

The methods used are logical and comparative analysis of literature; synthesis and deduction.

Fiscal harmonization in the European Union

Although the origins of European integration do not specify the type of harmonization arrangements, the Directive has been the most used normative vehicle, as it allows the national authorities to choose the most adequate form and measure for its fulfillment.

Unlike indirect taxation, the Treaty of Roma does not expressly refer to direct taxation harmonization but recognizes the necessity of carrying it out when it affects the proper functioning of the common market. Article 94 of the ECT includes a general clause allowing for the approximation of the member States' standards that can affect the establishment or the functioning of the common market.

Therefore, the term harmonization at a European Union level is only applied in relation to indirect taxation (art. 93 of ECT) which does not entail unification but rather pretends to reduce the differences between the national tax systems in order to facilitate the construction of a common market; in this sense, it can be affirmed that harmonization does not constitute an end in itself, but an instrument to consolidate the internal market. As a first step, objectives were proposed to advance in turnover taxes.

If doubts remained, in the 1960's the Commission made clear that its actions in the fiscal field would never be to achieve the equalization of global fiscal pressure that will depend on the nature and importance of the services offered, as well as the degree and form of State intervention in the economic and social scope of everyone.

For that reason one of the difficulties in advancing fiscal harmonization appeared in the resistance of the States to transfer part of their sovereignty in order to establish and regulate taxes whose revenues are used to reach economic policy objectives. EU countries have different views on how much tax to raise and how to spend it.

The adoption of euro has intensified the pressure of fiscal competition because of decreasing the monetary exchange risk, approaching interest rates and supplementary transparency conferred by using a single currency. If EMU is to be successful, member States have not only to comply with budget disciplines but also to

deepen and strengthen economic policy coordination, particularly in the area of taxation (Marzinotto *et al.*, 2011; Chea, 2012). If countries overspend and go into too much debt, they could jeopardize economic growth in other EU countries and the stability of the Eurozone.

This problem got worse with the come into force of the economic and monetary union, which involved the loss of the possibility to use monetary and exchange policies, and conditioned that the budgetary policy be submitted to the Stability and Growth Pact (Jonung *et al.*, 2008). In accordance to that the member States continue retaining almost entirely the responsibility of financing the activities of the public sector. In a single monetary policy the fiscal policy can be used to meet the economic inequalities of the territory in which they are applied (Porteba, 1994).

Also, among the difficulties it must be noted that national governments remain in control of taxes as EU law require to apply the rule of unanimity to tax matters, while for some countries this requirement should be substituted by the co-decision procedure based on the skilled majority and weighed with the countries' votes in a joint agreement with the European Parliament, thus facilitating the decision making process.

In summary, the European economic integration would harmonize those matters considered necessary to enforce the basic liberties established in the Treaty (the free circulation of goods, the provision of services, the freedom of establishment, the free circulation of workers, and capital) as well as to avoid distortions in resource allocation. In this way, it would require a greater convergence in the taxation of capital and labor to avoid dysfunctions; a tax on consumption with easy adjustment in the intra-community transactions; and a greater integration and cooperation of taxation administrations that permit the effective management of the fiscal system.

Steps towards fiscal harmonization

The first steps towards fiscal harmonization took place in the sixties. In February 1960, the Commission established a Fiscal and Financial Committee chaired by Neumark that analyzed in which degree the existing fiscal disparities prevent the proper functioning of the common market. The Neumark Committee published its Report in 1962 which included a package of initiatives grouped in a calendar in three phases with different objectives.

The first phase was concentrated in the indirect taxes, with the reform of turnover tax and the application of the value added tax (VAT), the harmonization on the form and level of imposition of tax on interest and dividends, and the modification of the existing conventions on double taxation between member States.

In the second one, with the harmonization of corporate tax, as a prelude to a future and uniform Corporate Income Tax for all member States, there are measures for harmonization of taxation for individual income, the conclusion of a multilateral agreement to avoid the double taxation, and the abolition of excise duties not collected in all the States.

Finally, there is the creation of a joint information service, similar to a European register of income and wealth, in order to ensure effective fiscal supervision, and

the creation of a special European court with a proper procedure and with sufficient competence in order to resolve fiscal litigations

After the progress achieved through the implementation of the guidelines of the Neumark Report, the tax issues returned to the forefront of the European concerns and in September 1975 the Commission adopted a Fiscal Program that included the following aspects:

- About VAT, the convenience of introducing uniform methods of taxes collection, simplification of the processing in borders and the solution of specific problems (temporary admission, repairs, sales by mail, etc.). Also, Governments were free to apply reduced rates to a wide range of goods and service.

- To achieve a more uniform levying of consumption tax and other indirect taxes.

- In direct taxes, to advance the harmonization of corporate income tax and the regimes of deduction in the tax on dividends. The EU pays particular attention to company taxation because of the risk that tax breaks in one country might unfairly lure firms away from competitor countries.

Personal tax rules and rates are matters for individual EU Governments, unless an individual's cross-border rights are affected. So the European Commission has acted to ensure EU citizens are not deterred from working in other EU countries by problems linked to the transfer and taxation of their pensions and pension rights.

The Commission has tried to harmonize corporate taxes but this aim was later abandoned and the Commission emphasized the principle of subsidiarity, pointing to the need to leave as much flexibility as possible to member countries in determining their corporate tax system (Montagnier, 1991).

- Fraud and international tax evasion. The effective collaboration between the national tax administrations on indirect taxation and mutual assistance for the recovery of debts.

The EU also has a role in preventing cross-border tax evasion, most European countries have agreed to share information on non-residents' savings.

Ultimately, instead of setting ambitious targets, the Commission set in place a Tax Proposals Program with modest objectives in order to shape the new European common fiscal framework. In any case, they had not achieved great accomplishments and, until the end of the eighties, the harmonization was reduced to the widespread application of the VAT from 1973 on a uniform basis until 1979.

In October 1990, a Committee was established in order to review corporate taxation in the European Community that led to the Ruding Report. While it did not translate into particular legislative results, it requires reorientation of community fiscal thinking that became relevant in the need for greater coordination of corporate taxation.

Corporate taxation has been regularly used as a means of influencing the location of investment and competition among national authorities will become stronger as Europe moves closer to a single market.

The Ruding Report (1992) called for the adoption of a band for corporate taxes (30-40 %) in order to avoid distortions and self-defeating.

In the early nineties, the creation of a single market without fiscal frontiers stimulated new measures to adapt the VAT in this new context, for the harmonization and free movement of goods subject to special taxes; there was an initial step in the coordination of corporate tax with the adoption of a neutral tax system for corporate restructuring and rules to remove legal and economic double taxation of dividends.

On December 1st, 1997 the ECOFIN debated the need for coordinate actions in the European Union to combat harmful tax competition in order to achieve objectives such as the reduction of distortions that still existed in the single market, the prevention of significant tax revenue losses, and to focus tax structures in a manner conducive to employment. The conclusions resulted in a "tax package" with three proposals: a Code of conduct for corporate taxation, a proposal for a Directive on taxation of savings, and another on taxation of cross-border payments of interest and royalties.

Subsequently, the Commission published a study on corporate taxation in October 2001, which reflected on the different distortions that this tax generated in a single market and incorporated a number of proposals, like the need to adopt a model of consolidated taxation and a uniform taxable income for European enterprise.

In 2003 there was adopted the "tax package" with three major measures: to eliminate 66 national measures that were generating harmful tax competition; the approval of the exemption from withholding tax on payments of interest and royalties between associated companies; the adoption of the savings Directive, which provides administrative support mechanisms necessary to ensure the taxation of income as interest obtained by individuals.

In 2005 the Stability and Growth Pact adopted by the ECOFIN Council on 20 March 2005 was reformed to "improving the economic rationale underlying the fiscal rules and their implementation" (Jonung *et al.*, 2008) allowing greater differentiation across countries.

Currently the debate about an overall tax and fiscal co-operation has been intensified mainly because of deterioration of economic situation of EMU.

Fiscal harmonization and new challenges faced by the European Union

Indirect Taxes. Harmonization in VAT

VAT was introduced by the first and second VAT Directives to replace the production and consumption taxes which had been applied by the member States. The cumulative effect of these cascade taxes was to create a barrier to trade, particularly imports and exports between member States, as it was difficult to calculate the exact amount of tax incorporated in the price of goods and services. VAT, on the other hand, has the advantage of making the tax content of a product visible at each stage in the production or distribution chain and avoided the cumulative effect of cascade taxes and ensured tax neutrality.

The sixth VAT Directive (77/388/EEC) ensured that the tax was applied to the same transactions in all member States, so that they formed a common basis for funding the

Community and paved the way for subsequent measures working towards a goal set as early as the first VAT directive: the abolition of tax frontiers. The agreements on rates after the elimination of the frontier controls took place in 1992.

The Second and the Sixth VAT Directives adopted in 1967 and 1977 respectively, failed to bring about a completely harmonized base, due to numerous exceptions included in those two Directives. Any form of differentiated indirect tax creates distortions in the allocation of resources. However the application of the destination principle in both international and intra- UE trade, distortions in trade between countries have been minimized (Robson, 1987; Jensen & Tarr, 2012).

Later new Directives were adopted:

The Seventh Directive 77/388/CEE of the European Council, 17 of May 1977, about the legislative harmonization of the state members relative to the taxes on the volume of business- Common System of VAT: uniform taxable base.

The Eight Directive 79/1072/CEE of the European Council, 6 of December 1979, about the legislative harmonization of the state members relative to the taxes on the volume of business: Payment of devolutions of VAT to the passive subjects not established in the interior of the country.

In 1987, the Commission called for a shift from the destination to the origin principle for VAT payments. In the origin principle the goods are taxed where they are produced, however it has been shown that the shift from the destination to the origin principle would not be sufficient to allow the elimination of border tax adjustments in the case of a multi-stage tax like VAT (Cnossen & Shoup, 1987).

While origin-based taxation remains a basic principle of the common VAT system for private individuals, the transitional system kept various parallel destination-based methods for companies. Problems quickly became apparent and further directives were adopted:

- Council Directive 91/680/CEE, 16 of December 1991 that completes the common system of VAT and that modifies the Directive 77/388/CEE, regarding the views on the abolition of borders.

- Council Regulation CEE n° 218/92, 27 of January 1992, on administrative cooperation on indirect taxation.

- Council Directive 92/77/CEE, 19 of October 1992, which the common system of VAT was finalized and the Directive 77/388/CEE (approximation of the VAT rates) was modified.

- Council Directive 2001/115/CEE, 20 of December 2001, which modifies the Directive 77/388/CEE with the objective to simplify, modernize, and harmonize the conditions put on the check-in with relation to VAT.

- Council Directive 2002/38/CE, 7 of May 2002, which was modified and modifies the temporary Directive 77/388/CEE with respect to the regimen on VAT applicable to the broadcasting and television services and certain electronic services.

- The 13th Council Directive 86/560/CEE, 17 of November 1986, about the legislative harmonization of the member states relative to taxation on the volume of

business. Devolution payments on VAT to passive subjects not established in the territory of the community.

- Council Regulation (CE) n° 1798/2003, 7 of October 2003, relative to the administrative cooperation in the field of VAT and which repeals the Regulation (CEE) number 218/92.

However, it was impossible to achieve any radical simplification because Community legislation was not applied uniformly and rates remained too far apart. As a result, the existing VAT system is cumbersome for traders and the single market is, to some extent, still fragmented.

The review of the VAT regime that has started in December 2010 with the presentation of the Commission Green Paper on the future of VAT therefore comes at the right moment. It is necessary to continue modernizing the VAT directive with precise standards that would help eliminate differences at the community level, and offer the possibility of a more uniform implementation of the standards.

Excise

Indirect taxes can be used to promote the sustainable use of resources, particularly energy, transport and the environment. In the case of excise duties, the advances in harmonization have been less significant and there can be noted only the agreements of minimum rates for alcohol, tobacco and energy.

A common system of excise was introduced on January 1st, 1993 when the single market came into being. It applies to three main categories of product: manufactured tobacco, alcoholic drinks and mineral oils. Member States can, however, continue to levy other (unharmonized) taxes on these products and others provided they do not constitute either a turnover tax or a barrier to trade.

However, the latest data show a slight increase in divergence between energy tax levels, which are detrimental in terms of the single market. A better alignment of energy tax rates with their CO2 content, as put forward in the Commission's proposed revision of the Energy Tax Directive in April 2011.

Direct Taxes

Direct taxes were being considered less relevant to the effects of free circulation of goods, even though they affect the free circulation of people and capital. However, as economic integration efforts intensify, since the elimination of tax barriers, and, overall, with the monetary union, it is becoming more evident that the lack of coordination in this field provokes significant deficiencies in the division of resources, with clear consequences for the outsourcing of activities (Nicodeme, 2007).

The first obligatory Community norm adopted on direct taxation was the Council Directive 77/799/EEC of 19 December 1977 concerning mutual assistance by the competent authorities of the member States in the field of direct taxation. Until the mid-eighties, direct taxation was the only approved taxation; perhaps because of member State resistance to the concession of competences.

The advances have been less in the field of free circulation of capital and workers than in relation to the free movement of goods, due especially to the existence of different tax systems on corporations and the lack of agreement in setting a model of taxation on them, and to the impact of the corporate tax on corporate competition (Kind *et al.*, 2005).

Tax on capital

Driven by the mandates of the Single European Act on 24 June 1988, Directive 88/361/EEC was approved, over the free circulation of capital between Member states, aimed at providing the single market a full financial dimension, instituted as a principle the complete liberalization of movements of capital beginning 1 July 1990. The Directive refers to the necessity to create appropriate conditions for a concerted action of Member states should it become necessary to avoid distortions in the movements of capital that would possibly increase with the single currency.

The opinion was shared by Member states that the existence of tax systems that give favorable treatment to interest earned by non-residents would cause significant distortions in the functioning of the capital market. However, these were not agreed upon in the proceedings for their removal; some were advocating for proceedings in the Community sphere, while a minority think that fiscal harmonization of savings would cause a mass influx to third countries (Giovannini, 1989; Gros, 1990).

Corporate tax

The efforts to harmonize corporate taxes to eliminate distortions in the allocation of direct investment income in much more recent; it is itself a product of the growing mobility of short term capital. And for personal taxation and social security payments they have remained all along beyond the harmonizing ambitions of the EU Commission (Tsoukalis, 1993).

In direct taxation, it is necessary to point out that the powers are national and the EU is limited to guaranteeing the performance of the single market. Community legislation is centered on company taxation and the taxation of savings income.

Differences in taxation between member States can influence companies' investment decisions and create distortions of competition. In 1990 The Rapport Ruding examined whether differences in corporation tax caused affected the single market, particularly as regards investment decisions and competition, and to suggest ways of overcoming this problem. The committee made specific recommendations designed to eliminate double taxation of cross-border income flows and harmonize three components of corporation tax: the rates, the assessment basis and the administrative collection system.

Essentially, it suggested that the key components of member States' corporation tax systems have to be harmonized. Its proposals to eliminate double taxation dealt with abolition of charges, regulation of transfer pricing, treatment of losses abroad and completion of the network of bilateral tax agreements. The need to eliminate double taxation, ensure effective taxation and prevent tax

evasion is recognized by the Council. On the taxation of groups of companies the main problem for those wishing to take advantage of the single market is probably the difficulty of cross-border cooperation between companies established in the Community, and in 1990 the Council adopted two directives to remove some of the obstacles.

- The Merger Directive (90/434/EEC) of the Council, 23 July 1990, is designed to cut down tax measures that might hamper business reorganization. The objective of the Merger Directive is to remove fiscal obstacles to cross-border reorganizations involving companies situated in two or more Member States. The Merger Directive includes a list of the legal forms to which it applies. The companies must be subject to corporate tax, without being exempted, and resident for tax purposes in a Member State.

- The Parent-Subsidiary Directive (90/435/EEC) abolishes double taxation of profit distributed between parent companies in one Member State and their subsidiaries in another Member State.

The Member States have also concluded a convention (90/436/EEC) of the European Council, 23 July 1990, based on Article 293 of the EC Treaty, introducing an arbitration procedure to prevent double taxation in connection with the adjustment of profits between associated enterprises from different member States.

The first Directive differs from the taxation of capital gains that would generate in the cross-border transactions of cooperate restructuring. With this measure, the restructuring was made possible without immediate fiscal cost to Community companies, permitting them, thereby, to improve their competitiveness. The second completed the first, if the first facilitates the establishment of large European groups; the second one improved its proper operation following its establishment.

On 17 October 2003 the Commission adopted a proposal amending Council Directive 90/434/EEC on a common system of taxation applicable to mergers, divisions, transfer of assets and exchanges of shares concerning companies of different Member States which was subsequently adopted after negotiations by Council on 17 February 2005, as Directive 2005/19/EC amending the Merger Directive.

The main amendments introduced by Directive 2005/19/EC are the following:

- Directive 2005/19/EC adds new legal entities; the benefits of the Merger Directive are thus extended to a greater number of legal entities, including the European Company.

- The Directive provides for capital gains exemption when the receiving company holds shares in the transferring company. The holding threshold required to enjoy this exemption has been modified by the Directive 2005/19 to align it with that of the Parent-Subsidiary Directive.

Finally, concerning the coexistence of different taxation systems of corporations that treat transnational activities differently from similar national activities, the first step was to introduce a common consolidated base for the Corporate Tax in the European Union. Since 2001, the Commission maintains a strategy aimed to that end (the Common Consolidated Corporate Tax Base, CCCTB).

Some recent studies on company taxation harmonization are (Devereux *et al.*, 2002; Cnossen, 2004; Mintz, 2004; Sorensen, 2004); Chea, 2012; Jensen & Tarr, 2012).

One relevant question is the role of corporate taxation in European systems under a CCCTB and how should the CCCTB affect the integration of the corporate tax with personal taxes on capital income in Europe (Fuest, 2008).

New challenges

To ensure that this rule keeps pace with social change, and in the interests of greater simplification, the EU is also introducing new tax policy instruments which will enable it in the coming years to cope with new challenges:

- setting up a permanent forum for Member States to exchange information on direct taxes in particular.
- ensuring that national tax systems are compatible and consistent with EU objectives.
- enabling European industry to compete internationally.
- fighting fraud and dealing effectively with other irregularities.

At the beginning of 2005, the European Union fixed the goal at 3 % GDP in 2010 to finance the research and development (R&D), with 2/3 coming from the private sector. The tendency to favor R&D in tax systems spread throughout member States, however the growing diversity of incentive threatens to divide the fiscal policy and also damage the dissolution of borders within the European Union. In past years, the number of member States that have turned to different fiscal incentives in R&D has not stopped growing. There is not one right answer in terms of how to use these incentives, in this sense, the Commission proposed several desirable initiatives to conciliate the fiscal policy and the knowledge Economy in a coherent fiscal framework:

- Favoring the launching of several large international R&D projects.
- Giving opportunities for young and innovative companies.
- Promoting the philanthropic financing of the research.
- Simplifying the VAT and its application in R&D.
- Establishing a common fiscal definition in R&D.

There are recommendations on the volume and structure of national taxes and social security contributions and the increasing need for coordination between member States. Tax systems have to be structured in a way which will promote economic growth, competitiveness and employment while at the same time bringing in sufficient revenue to finance social welfare spending.

The fact that during the crisis countries seemed to concentrate tax cuts on labor is positive, as in several countries high labor tax rates coincide with poor employment figures; given the Europe 2020 objective to raise employment rates to 75 %, a reduction in labor taxation is welcome (European Commission, 2011).

In Administrative Cooperation a Council Resolution from 4 February 1975 included the exchange of information between member States, using harmonization to combat fraud and tax evasion. It established three ways to exchange information: by petition, automatic, for cases

within the framework of consultation procedures, and spontaneous, which takes effect in suspicious circumstances that require action.

Although market controls on interior borders were abolished on 1 January 1993, not all fiscal obstacles to the unified market were eliminated. In an effort to improve the function of the common legislation, new measures were taken simultaneously concerning administrative cooperation, exchange of information, and the program Matthaues-Tax (1993-1997) a professional training aimed at the officials responsible for indirect tax systems.

Financing this measure was taken over by the Fiscalis program, approved 30 March 1998, which lasted from this date until 31 December 2002. Subsequently, Fiscalis broadened this in 2003-2007 and 2007-2013 (currently in effect). The Fiscalis program has two objectives: to ensure that government employees achieve an elevated level of understanding of Community law in the context of indirect tax systems; and guarantee widespread, effective, and efficient cooperation between member States. The Commission and the member States would create a system of communication and exchange of information, manuals and guides, worker exchange, as well as seminars and exercises about bilateral and multilateral control within the European legal framework.

Decision 1482/2007/EC developed this program for 2007-2013 in order to bettering the tax system of the interior market and reinforcing cooperation through the uniform application of fiscal legislation in Member States, the protection of national and local financial interests, a well-functioning of the interior market, and a fight against fraud and the unfair competition.

On the other hand, the adoption of euro has intensified the pressure of fiscal competition because of decreasing the monetary exchange risk, approaching interest rates and supplementary transparency conferred by using a single currency. If EMU is to be successful, member states have not only to comply with budget disciplines but also to deepen and strengthen economic policy coordination, particularly in the area of taxation. The Council's annual broad economic policy guidelines contain recommendations on the volume and structure of national taxes and social security contributions and the increasing need for coordination between member States. Tax systems have to be structured in a way which will promote economic growth, competitiveness and employment while at the same time bringing in sufficient revenue to finance social welfare spending.

The other option is advocated by a group of authors (e.g. Masson, 1996; Barry, 2001) and it suggests higher centralization of fiscal powers in the EU and a progress in direction of formulating such fiscal policy which would act most efficiently on the stabilization of cyclic trends and wouldn't disrupt the achieved degree of economic integration in the EU. This scenario before anything includes strengthening of the role of fiscal rules in the EU through which with a stronger coordination and control of certain budget policies stabilization policy would "centralize" as an alternative to fiscal federalism.

Conclusions

A tax system must reduce tax distortions to the minimum possible, correct market failures and avoid adverse interaction between cross-country tax systems. The links between tax policy and other areas of EU policy are becoming clearer as European integration proceeds and there is now a considerable body of EU law on various tax-related matters.

Tax harmonization is a policy that has developed throughout the history of the European Union, with stages clearly marked by issues that were considered basic at every moment of integration. The problem is that many actual fiscal systems are based on obsolete mainstays, designed when the world was divided and countries remained indifferent to what was happening elsewhere.

In the European Union, where these factors are accentuated, indirect taxes are already harmonized to a certain extent, but there is a consensus that more cooperation is necessary to remove damaging competition between taxes applied by member States.

The Single market requires a certain level of fiscal harmonization, avoiding distortions introduced by different types of taxes. However, fiscal policy is deeply rooted in the sovereignty of countries and when one tries to lower tax rates in some countries and raise them in others; it is not easy to reach an agreement.

In the current context of the European Union, fiscal harmonization requires cautious, gradual, and desired implementation. To advance, fixed criteria must be put in place along the way. Harmonization can be an unattractive option for some EU countries to the extent that can require greater control and cooperation between governments, and can redefine policies and incentives on spending.

The consequences of the economic crisis are reflected in EU Member States' government revenues and in the measures amending the tax structure with a view to supporting growth, shifting tax revenues from distortionary taxes (i.e. corporate income tax and personal income tax) towards less distortionary taxes (e.g. consumption tax and indirect taxation in general). Tax policies to enhance the growth potential of the EU economy are a goal per se but also a condition for making public finances sustainable.

Reducing corporate income tax will reduce the cost of capital and stimulate capital accumulation and investment in R&D, which should translate into stronger productivity and economic growth (Chea, 2012). A growth-friendly tax structure could go hand in hand with social equity, if tax reforms are adequately designed.

Lastly, member States must also face the challenge of improving the efficiency of their tax collection and better preventing tax evasion. Fighting against the shadow economy and tax evasion is also likely to substantially enhance tax collection in several countries.

References

- Auerbach, A. J. (2006). The Future of Capital Income Taxation. *Fiscal Studies*, 27(4), 399-420. <http://dx.doi.org/10.1111/j.1475-5890.2006.00040.x>
- Baldwin, R., & Wyplosz, C. (2003). *The Economic of European Integration*. MacGraw-Hill. London.
- Baldwin, R. E., & Krugman, P. (2004). Agglomeration, Integration and Tax Harmonization. *European Economic Review*, 48, 1-23. [http://dx.doi.org/10.1016/S0014-2921\(02\)00318-5](http://dx.doi.org/10.1016/S0014-2921(02)00318-5)
- Barry, F. (2001). Fiscal Policy in EMU, in: E. Pentecost & van Poeck, A. (ed.), *European Monetary Integration*, Edward Elgar, Aldershot.
- Chea, A. C. (2012). The Global Financial Meltdown of 2008, Sub-Saharan Africa, and the Way Forward for Sustainable Economic Growth and Development. *International Journal of Economics and Finance*, 4(1), 3-13.
- Cnossen, S., & Shoup, C. (1987). Coordination of VAT. In Cnossen S. (edit) *Tax Coordination in the EC*. Kluwert. Deventer.
- Cnossen, S. (2004). Reform and Coordination of Corporation Taxes in the European Union: An Alternative Agenda. *Bulletin for International Fiscal Documentation*, 58(4), 134-150.
- Devereaux, M. P., Griffith, R., & Klemm, A. (2002). Corporate Income Tax Reforms and International Tax Competition. *Economic Policy*, 35, 451-495.
- Eggert, W., & Genser, B. (2001). Is Tax Harmonization Useful?. *International Tax and Public Finance*, 8(4), 511-527. <http://dx.doi.org/10.1023/A:1011243613681>
- European Commission (2000). *Tax Policy in the European Union*. [On line] accessed 10 October 2011 http://ec.europa.eu/publications/booklets/move/17/txt_en.pdf
- European Commission (2011). *Focus on the Crisis: The Main Impacts on EU Tax Systems*. Taxation Trends in the European Union. Brussels.
- Fuest, C. (2008). The European Commission's Proposal for a Common Consolidated Corporate tax Base. *Oxford Review of Economic Policy* 24(4), 720-739. <http://dx.doi.org/10.1093/oxrep/grn032>
- Giovannini, A. (1989). National Tax Systems versus the European Capital Market. *Economic Policy*, 9 (October). <http://dx.doi.org/10.2307/1344473>
- Gros, D. (1990). *Capital Market Liberalization and the Fiscal Treatment of Saving in the European Community*. CEPS Working Party Report. Center for European Policy Studies. Brussels.
- Jakstonyte, G., & Boguslauskas, V. (2010). Graphic Model Regulating the Application of Land Site Taxation Deductions. *Inzinerine Ekonomika-Engineering Economics*, 21(3), 238-243.

- Jensen, J., & Tarr, D. (2012). Deep Trade Policy Options for Armenia: The Importance of Trade Facilitation, Services and Standards Liberalization. *Economics*, 6(1), 1-54.
- Jonung, L., Larch, M., & Fischer, J. (2008). 101 Proposals to Reform the Stability and Growth Pact. Why so many? A survey. *Public Finance and Management*, 8(3), 502-560.
- Kind, H. J., Midelfart, K. H., & Schjelderup, G. (2005). Corporate Tax Systems, Multinational Enterprises, and Economic Integration. *Journal of International Economics, Elsevier*, 65(2), 507-521. <http://dx.doi.org/10.1016/j.jinteco.2004.06.002>
- Marzinotto, B., Sapir A., & Wolff, G. B. (2011). What Kind of Fiscal Union? Policy Brief 2011/06, Bruegel.
- Masson, P. R. (1996). Fiscal Dimensions of EMU. *Economic Journal*, 106(437), 996-1004. <http://dx.doi.org/10.2307/2235372>
- Mintz, J. (2004). Corporate Tax Harmonization in Europe: It's all About Compliance. *International Tax and Public Finance*, 11(2), 221-234. <http://dx.doi.org/10.1023/B:ITAX.0000011401.67566.14>
- Montagnier, G. (1991). Harmonisation Fiscal Communautaire. *Reveu Trimestrielle de Droit Européen*. Jan-Mars.
- Nicodeme, G. (2007). Corporate Tax Competition and Coordination in the European Union: What do we know? Where do we stand? In G. Gregoriou and C. Read (Eds), *International Taxation Handbook*, Elsevier. London.
- Porteba, J. M. (1994). State Responses to Fiscal Crises: the Effects of Budgetary Institutions and Politics. *Journal of Political Economy*, 102(4), 799-821. <http://dx.doi.org/10.1086/261955>
- Robson, P. (1987). *The Economic of International Integration*, 3rd Edit. Allen and Unwin. London.
- Sorensen, P. B. (2004). International Tax Coordination: Regionalism versus Globalism. *Journal of Public Economics*, 88, 1187-1214. [http://dx.doi.org/10.1016/S0047-2727\(03\)00062-8](http://dx.doi.org/10.1016/S0047-2727(03)00062-8)
- Staciokas, R., & Valanciene, L. (2002). Optimization of Taxation by Reducing Taxes to State and Local Government Budgets. *Inzinerine Ekonomika-Engineering Economics*(4), 30-33.
- Tsoukalis, L. (1993). *The New European Economy*. Oxford University Press. Oxford.
- Wilson, J. D. (1999). Theories of Tax Competition. *National Tax Journal*, 52, 269-304.

Eduardo Cuenca Garcia, Margarita Navarro Pabsdorf, Antonio Mihi-Ramirez

Fiskalinis suderinamumas ir ekonominė integracija Europos Sąjungoje

Santrauka

Nuo pat Europos Ekonominės Bendrijos įkūrimo, vyksta nepaliaujama diskusija apie visuotinių mokesčių, fiskalinio bendradarbiavimo ir suderinamumo būtinumą Europoje. Ši diskusija neseniai suintensyvėjo daugiausia dėl EMU. Išanalizavus literatūrą, galima teigti, kad šis straipsnis įrodo, jog artimesnis bendradarbiavimas tiesioginių ir netiesioginių mokesčių klausimais, yra labai svarbus, kalbant apie dabartinę integravimosi į ES būseną.

Šiuo metu pasiektas ekonominės integracijos lygis yra pakankamas. Rinkos integracijos pradiniam etape siekiama, kad būtų galima panaikinti mokesčius, kurie riboja ekonominių veiksmų galimybes, taip pat pašalinti kliūtis laisvam gamybos veiksnių judėjimui naujose ekonomikos srityse ir resursų paskirstymo iškraipymus, siekiant apsaugoti nuo našumo praradimo.

Ekonominės integracijos procesus turi lydėti suderinamumo ir fiskalinio koordinavimo tarp dalyvaujančių šalių taisyklės. Norimo suderinamumo laipsnis ir forma priklauso nuo įvairių veiksnių. Mokesčių suderinamumas yra ir bus viena svarbiausių ir aktualiausių temų ES. Tai yra tarsi būdas, siekiant atskiros rinkos arba Europos politinės bendrijos tikslų. Šiam suderinamumui yra numatytos dvi pagrindinės strategijos: konkurencinė, (pagrįsta fiskaline konkurencija) ir institucinė (pagrįsta šalių narių susitarimais). Dėl sunkumų sudarant susitarimus, pirmoji strategija yra dominuojanti. Vyriausybės nustato mokesčių normas kompanijų pelnui, asmeninėms pajamoms, santaupoms ir kapitalui. ES tik prižiūri, kad jos būtų teisingos visai ES. Stebima ar nacionalinės mokesčių taisyklės atitinka ES tikslus ir nekliaudo laisvam prekių, paslaugų ir kapitalo judėjimui po ES, taip pat ar suteikia privalumų prieš konkurentus. Buvo padaryta pažanga netiesioginių mokesčių, pridėtinės vertės mokesčių (PVM) ir akcizų srityje. Aptariant PVM, galima paminėti, jog pagrindiniai susitarimai buvo pasiekti dėl šeštosios PVM Direktyvos (1977) ir dėl koeficientų, pašalinus pasienio kontrolę (1992). Akcizo mokesčių atveju, pažanga buvo kiek mažesnė, todėl galima paminėti tik susitarimus dėl minimalių koeficientų alkoholiui, tabakui ir energijai (kurui).

Tiesioginių mokesčių srityje valdžia yra nacionalinė, o ES yra apribota ir turinti veiklą skirtingose rinkose. Bendrijos įstatymai yra sukoncentruoti į kompanijos apmokestinimą ir santaupų pajamų apmokestinimą.

Mokesčiai ir socialinės apsaugos įnašai turi didžiulę įtaką taupymo, vartojimo, investavimo ir įdarbinimo būdams ir tokiu būdu formuoja prekių, paslaugų, kapitalo ir darbo rinkų operacijas. Reformos, kurias pradėjo Kardifo Europos taryba 1998 metų birželio mėnesį, yra sukurtos, siekiant užtikrinti, kad skirtumai tarp sistemų, kurie tapo dar akivaizdesni įvedus eurą, nevaržo prekybos, sukelti atskiros rinkos skilimą arba išsaugo efektyvų resursų išdėstymą. Sukčiavimas mokesčių srityje tapo kita problema, keliančia vis didesnį Bendrijos susirūpinimą. Europos Parlamento ir Tarybos Sprendimas 888/98/EC sudarė programą (Fiscalis), kuria siekiama pagerinti netiesioginių mokesčių sistemos operacijas skirtingose rinkose ir išsaugoti platų ir efektyvų bendradarbiavimą tarp šalių narių ir Komisijos. Taip pat siekiama patobulinti ir administracinę praktiką. Tarptautinis sukčiavimas su PVM, ypač parduodant ir pristatant ES viduje, sukėlė rimtus biudžeto pajamų nuostolius. Tik per artimesnį nacionalinių mokesčių politikos koordinavimą gali būti pasiekta pusiausvyra tarp šalių narių mokesčių įvairovės ir socialinio įnašo sistemų bei teisės laisvai įsikurti ir judėti po ES. Monetarinėje sąjungoje, turinčioje vieną valiutą ir bendrą politiką, skatinamas didesnis fiskalinių politikų suderinamumas ir koordinavimas.

Raktažodžiai: *mokesčių suderinamumas, mokesčių sistema, PVM, tiesioginiai mokesčiai, netiesioginiai mokesčiai, Europos integracijos, stabilumo ir augimo paktas.*

The article has been reviewed.

Received in February, 2012; accepted in February, 2013.