

OVERVIEW OF VALUE ADDED TAX AND EXCISE DUTY IN THE COUNTRIES OF EUROPEAN UNION

*R. Subačienė, dr. assoc. professor
Vilnius University, Lithuania*

Taxes and contributions are the main source of income for national budget, which ensures the state to perform the protection, development, management and other functions. Tax system of every country consists of different taxes payable by country's physical and legal entities. And each country seeks to create such tax system, which would promote economy of the country, ensure the adequate budgetary revenue and fair competition and distribution of taxes [1].

In most of the EU member states indirect taxes are the main source of budget revenue. In Lithuania income from the value added tax (VAT) and excise duties accounts for about 40 percent of all taxes that are collected. Efforts to compensate for the effects of the global financial crisis on the EU member states, which started in 2008, by taking special taxing measures in relation with the increase in or cut of the VAT or excise duty rates reveal that indirect taxes are important tools regulating cyclical economic fluctuations [2]. Quite similar situation may be noticed in other countries of European Union, where the average percentage of consumption taxes of total taxation revenue makes about 28 percent. Besides, an important role in EU also plays regulation of the taxes, as general regulation must be implemented in the national law systems of EU member states.

The goal of the article is to analyse the EU member states consumption taxes. Methods of the research – analysis of international information on taxation systems of the EU countries, systematisation, comparison and summary of information.

Analysis of VAT and excise duties in EU member states

The EU measures to harmonize value added tax and selected excise products were designed both to create better conditions for the free flow of goods and services in the common market, and to achieve a better balance between direct and indirect taxes [3].

VAT taxation system is based on the main principle, which is defined in EU Council Directive. The principle of the common system of VAT entails the application to goods and services of a general tax on consumption exactly proportional to the price of the goods and services, however many transactions take place in the production and distribution process before the stage at which the tax is charged. On each transaction, VAT, calculated on the price of the goods or services at the rate applicable to such goods or services, shall be chargeable after deduction of the amount of VAT borne directly by the various cost components. The common system of VAT shall be applied up to and including the retail trade stage [4].

According to the common system, to the purchaser, a VAT is a tax on the price paid for the good or service. The seller pays VAT to the government on the amount of the value the seller has added. The seller keeps the remaining amount of VAT col-

lected on the entire purchase price from the seller as an offset to the taxes it paid on the goods and services acquired in the process of producing the product or providing the service [5].

The price of goods and services may depend on the VAT rate, besides the other economic factors influencing this indicator. General EU regulation states [4], that Member States shall apply a standard rate of VAT, which shall be fixed by each Member State as a percentage of the taxable amount and which shall be the same for the supply of goods and for the supply of services.

The standard rate of VAT in force in the various Member States, combined with the mechanism of the transitional system, ensures that this system functions to an acceptable degree. To prevent divergences in the standard rates of VAT applied by the Member States from leading to structural imbalances in the Community and distortions of competition in some sectors of activity, a minimum standard rate of 15 % should be fixed. Member States may apply either one or two reduced rates [4]. 1 table presents the standard and reduced VAT rates, VAT exempt in different EU member states.

Table 1 – VAT rates, VAT exempt and excise goods in EU member states

Member States	Standard rate	Reduced Rate	VAT exempt				Reduced rates								Excise goods				
			medical goods and services, social services	financial and/or insurance services	education services	main food products	accommodation services	catering services	books, periodicals	construction work, new buildings	passenger transport services	reconstruction of old buildings	medical equipment	medicine	other	energy products and electricity	tobacco	alcoholic beverages	other
Belgium	21	6 / 12				X	X		X			X					X		
Bulgaria	20	9					X					X					X	X	
Czech Republic	21	10 / 15	X	X	X	X								X	X	X	X	X	
Denmark	25	-	X	X											X	X	X	X	X
Germany	19	7	X			X			X		X						X	X	
Estonia	20	9	X				X		X					X	X	X	X	X	
Greece	23	6,5 / 13	X	X	X		X	X	X					X	X				
Spain	21	4 / 10						X	X		X		X		X				
France	20	2,1 / 5,5 / 10				X	X	X	X		X	X			X	X			
Croatia	25	5 / 13				X	X	X	X				X	X	X	X	X	X	X
Ireland	23	4,8 / 9 / 13,5	X			X	X		X	X	X						X	X	
Italy	22	4 / 10	X	X		X			X					X	X	X			

Member States	Standard rate	Reduced Rate	VAT exempt			Reduced rates								Excise goods					
			medical goods and services, social services	financial and/or insurance services	education services	main food products	accommodation services	catering services	books, periodicals	construction work, new buildings	passenger transport services	reconstruction of old buildings	medical equipment	medicine	other	energy, products and electricity	tobacco	alcoholic beverages	other
Cyprus	19	5/9	X	X		X	X		X								X	X	
Latvia	21	12	X	X		X		X						X	X	X	X	X	X
Lithuania	21	5/9				X				X			X	X		X	X	X	
Luxembourg	17	3/8	X	X		X		X				X	X	X	X	X	X	X	
Hungary	27	5/18		X		X	X	X				X	X		X				
Malta	18	5/7	X			X		X		X				X	X	X	X	X	
Netherlands	21	6				X		X				X	X	X	X	X	X	X	X
Austria	20	10				X		X		X						X	X		
Poland	23	5/8				X	X	X	X	X						X	X	X	X
Portugal	23	6/13				X						X	X	X	X	X	X	X	X
Romania	24	5/9	X	X		X		X				X	X	X	X	X	X	X	X
Slovenia	22	9,5				X		X			X	X	X	X	X	X	X	X	X
Slovakia	20	10	X	X				X				X	X		X	X	X	X	X
Finland	24	10/14				X	X	X		X				X	X	X	X	X	X
Sweden	25	6/12	X	X	X	X	X	X		X				X	X				
United Kingdom	20	5	X	X	X	X		X	X	X							X	X	X

Source: composed by author according to [6, 7, 8]

The analysis of VAT rates shows that the lowest VAT rate is applicable in Luxembourg – 17 percent, as the highest is 27 percent, in Hungary. The average rate in EU member states is about 21 percent. Almost all countries are exempt for medical goods and services, pharmaceuticals, financial and insurance services, books, periodicals, daily use items. France, Finland, Slovakia apply incentives in cultural events (Table 1). Exports are subject of a zero rate in all EU member states. There are applied reduced rates for passenger transport services, construction works in many countries.

For the proper functioning of the internal market, conditions for chargeability, of excise duty should be the same in all Member States. The excise duty is regulated by the Council Directive No. 2008/118/EC at the EU level, which attitude should be implemented in national tax systems. This Directive lays down general arrangements in relation to excise duty which is levied directly or indirectly on the consumption of

the following goods: energy products and electricity, alcohol and alcoholic beverages, manufactured tobacco. Member States may levy other indirect taxes on excise goods for specific purposes, provided that those taxes comply with the Community tax rules applicable for excise duty or value added tax [9]. According to the 1 table 82 percent of Member States apply excise duty to energy products and electricity, 75 percent – to tobacco, 68 percent – to alcohol and alcoholic beverages and 36 per cent – to other excise goods.

Evaluation of consumption taxes

Main tools for evaluation of consumption taxes in EU member states may be consumption taxes portion of gross domestic product (GDP) and portion of total tax revenue.

The percentage of consumption taxes to total tax revenues is presented in 1 figure.

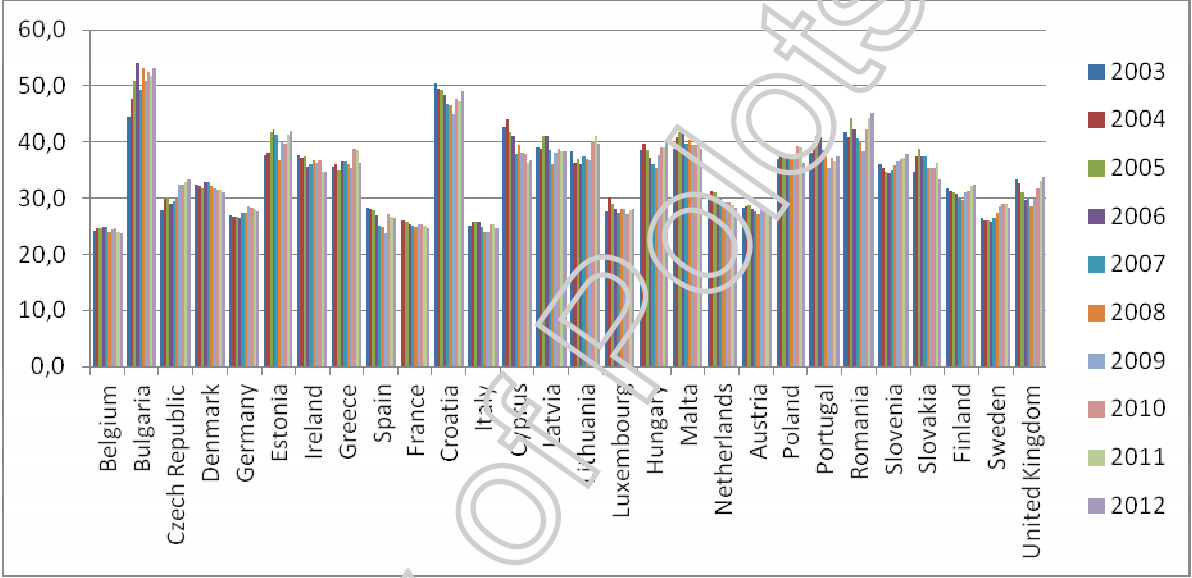


Figure 1 – Percentage of consumption taxes of total tax revenues in Member States, pr.

Source: composed by author according to [10].

The average of EU consumption taxes as a percentage of total tax revenues in the analysed period was 28.4 percent. This amount varied from 24.4 percent (Belgium) to 50.8 percent (Bulgaria). Although the consumption taxes as a percentage of total tax revenues on average per year fluctuated insignificantly – from -0.7 to 1 percentage points, but the analysis of the dynamics of this indicator reveals decrease tendency: 0.4 percentage points in 2006, 0.7 percentage points in 2007 and 0.3 percentage points in 2008 when in other years this proportion slightly increased compared with the previous year. There is a decrease in 0.7 percent of percentage of consumption taxes to total tax revenues in 2012, but the average fluctuation in all EU member states makes 0.11 percent during analysed period, so the consumption taxes percentage of total tax revenue is quite stable in Member States.

Some authors in analysis of EU countries tax systems distinguish some tendencies. A. Krajewska, 2013, states, that while the average of consumption taxes account for about one third of total tax revenues, their share in the budgets of individual countries is very much diversified. In the 1980s, during a successive extension of the Common Market, the historical nature of these differences was clearly emphasized and countries with “southern” and “northern” tax mentalities observed. In countries with the “southern” tax mentality the share of the informal economy is high and the efficiency of tax administration is low. In this situation the expansion of consumption taxes, and especially excise taxes, makes it possible to provide the budget with tax revenues which “escape” direct taxes. In countries with “northern” mentality, tax collection is higher and the state budget may be based more on income taxes. The first group includes Greece, Italy, Portugal, and Spain, while the second includes Sweden, Denmark, Germany, Austria, and Belgium [3].

The percentage of consumption taxes to GDP is presented in 2 figure.

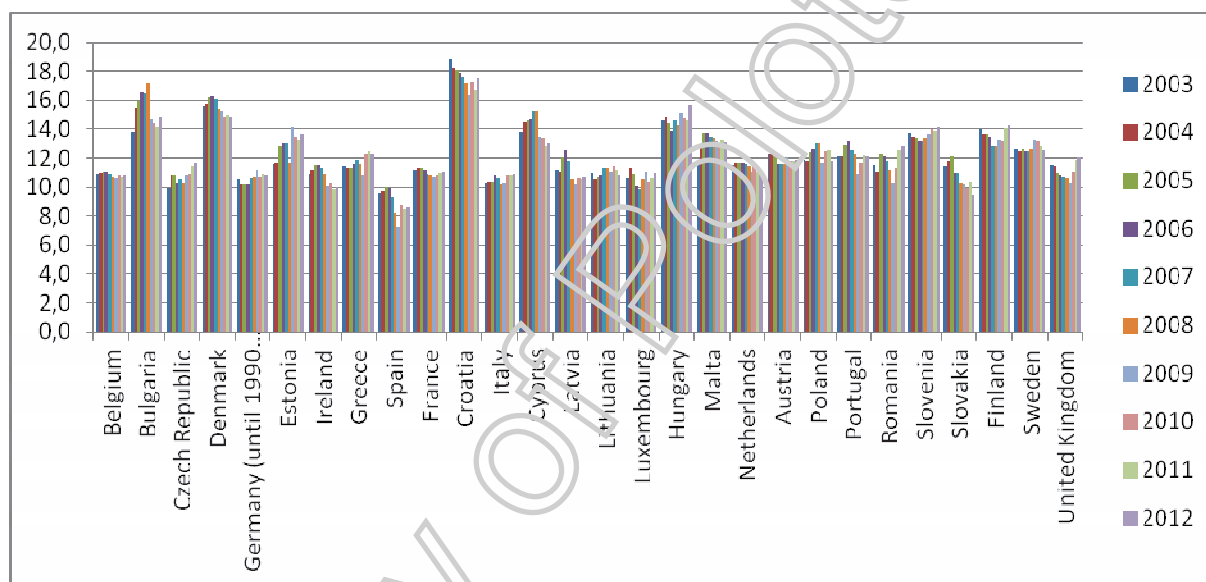


Figure 2 – Percentage of consumption taxes of GDP in Member States, pr.

Source: composed by author according to [10].

The 2 figure shows that the percentage of consumption taxes revenue of GDP in the EU countries varied from 9 percent (in Spain) to 17.6 percent (in Croatia) during analysed period, as the EU average was 11 percent. Average annual fluctuations during this period were insignificant from -0.2 percentage points to 0.2 percentage points, what made about 2.4 percent. The biggest noticeable change was in 2009, when in Estonia the percentage of consumption taxes of GDP increased by 21.4 percent, in Bulgaria – decreased by 14.5 percent, compared with the previous year.

According to the analysed information, it may be stated, that consumption taxes play an important role in the tax system of each country of EU. Average VAT rate makes about 21 percent, as in Lithuania, Belgium, Czech Republic, Spain, Latvia, and

Netherlands. Average percentage of consumption taxes makes about one third of total tax revenue and 11 percent of GDP.

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