

THE IMPACT OF CONSUMPTION TAXATION ON THE BUDGETARY REVENUES IN THE EU MEMBER STATES

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Abstract: : Taxation of consumption among European Union Member States is particularly important considering that many of these indirect taxes account for over 30% to the formation of budget revenues. Between taxes on consumption very important are VAT and excise duties for which special efforts are being made in an attempt to harmonize them within the Community space, to ensure the proper functioning of the internal single market.

JEL classification: G15, H25

Key words: consumption tax, VAT, excise duties, income revenues.

1. INTRODUCTION

The area where tax harmonization attempts were the most significant is that of indirect taxation. It was a great concern from the beginning, given that consumption taxes significantly influence the prices paid by final consumers, and the small differences in their application system could not ensure fiscal neutrality required for a fair competition on the Community market. The main concern was directed towards the most important indirect taxes: value added tax and excise duties.

2. ANALYSES

An interesting point of analysis is that of *indirect taxation structure* in the European Union member countries. A subdivision of indirect taxes are direct taxes on consumption and are known as “consumption taxes”. In ESA95 point of view, *consumption taxes* are defined as taxes levied on transactions between final consumers and producers or taxes on final consumption of goods and include in their structure :

- value added tax;
- taxes on imports (including excises), other than VAT;
- part of “other product taxes” such as stamp duties, taxes on financial and capital transactions, export taxes and export compensatory amounts ;
- part of “other product taxes” including taxes on international transactions, environmental pollution charges and other taxes defined as current taxes in ESA95 .

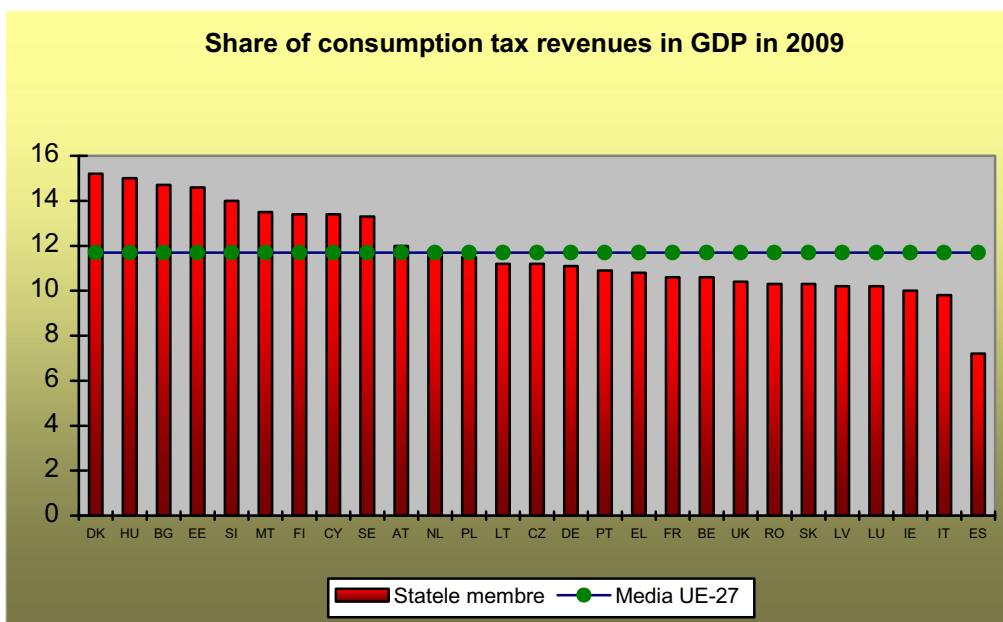
Viewed from this perspective, the evolution of consumption tax revenues as GDP share and total tax revenues between 2000 -2009 are of a particular importance.

A first observation that can be made is that the overwhelming part of indirect tax revenues take the form of indirect taxes on consumption, at the level of 2009 being of over 87%.

Secondly we can see that, naturally, the trend of consumption taxes influenced the evolution of indirect taxes as a whole; in both cases, at the end of the period under view there is a slight reduction as a share of GDP (-0.3%); in the first part of the interval (until 2008) consumption tax and indirect tax revenues, on the whole, have a tendency to increase, after which, due to a moderation in consumption, they return to values close to those recorded at the beginning of the interval.

The hierarchy of EU countries in terms of consumption tax revenue in 2009 is highly suggestive (see graph no. 1 and 2).

Graph no. 1



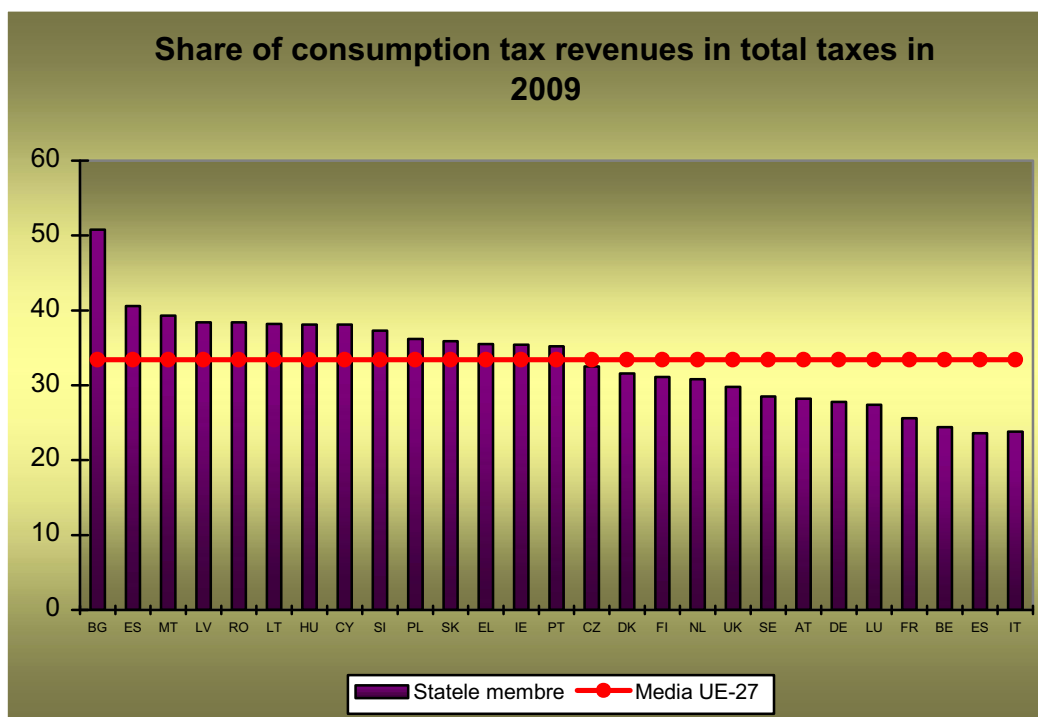
Source: data processed from *Taxation trends in the European Union*

As share of consumption tax revenues in GDP, Denmark ranks first, known as having a high tax burden, overall, followed by a group of seven countries among the former socialist or less economically developed.

Even more relevant is the hierarchical representation of the consumption tax revenues share in total indirect taxes.

We can easily see that the first fifteen places in the hierarchy are occupied by former socialist countries or less developed countries whose tax systems have consumption taxation as main pillar.

Graph no. 2



Source: data processed from *Taxation trends in the European Union*

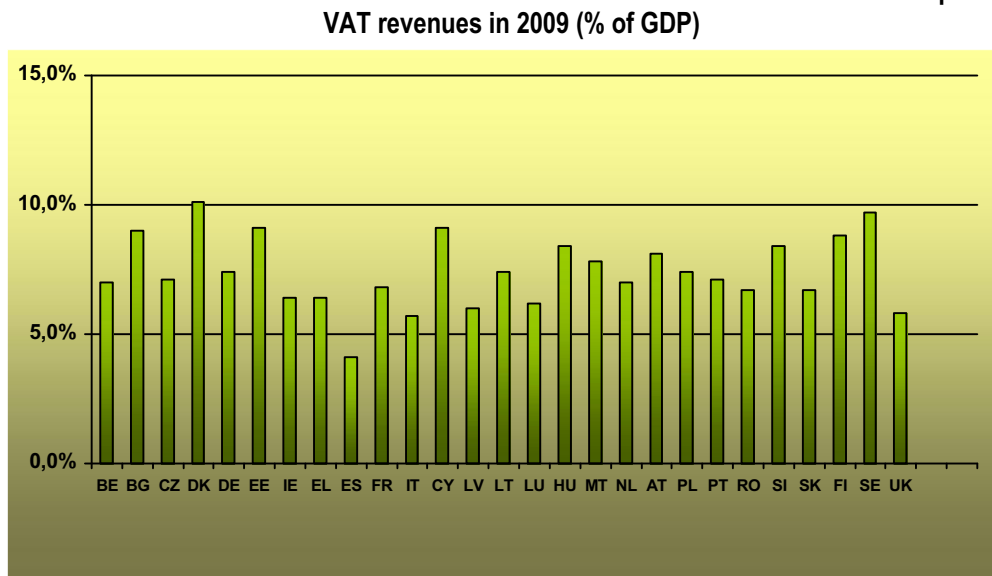
Value added tax is the main consumption tax in most European countries, usually giving more than half of budget resources. Value added tax revenues evolution calculated by dividing each state's revenues to gross domestic product is outlined in the European Commission report – *Taxation trends in the European Union in 2011*.

From the data presented we can see that, on the whole, in EU -27, during the period under view, there was a trend to increase the revenues, reaching a maximum level (7.9%) in 2006-2007, and since 2008, amid the economic recession, there was a drop, so that in 2009 their level is with only 0.1 percentage points higher than in 2000. This trend manifests in almost all member countries .

By comparing the revenues at the ends of the interval (2009 compared to 2000) we can see that within the European Union the evolutions are differentiated. 13 European countries have recorded increases in revenues from VAT, detaching in this respect Cyprus (by 3.3 percentage points in GDP), followed by Malta (1.8. percentage points) and by Sweden (1.1 percentage points), in the other countries the increases being moderate (less than one percentage point). In Austria the level of revenues remained unchanged while in other 13 countries it dropped, especially in Greece (-2.0 percentage points) and Latvia (-1.1 percentage points), the other reductions being below one percentage point of GDP.

2009 shows that compared to the European average (7.4%), deviations are significant between the country with the highest level of revenues (Denmark – 10.1% of GDP) and the country with the lowest level (Spain – 4.1.% of GDP), the difference being more than important.

Graph no. 3



Source: data processed from *Taxation trends in the European Union*

The hierarchy in relation to the VAT revenues as a percentage of GDP in 2009, highlights the fact that, in the group of countries that are above the European average, with Northern European countries like Denmark, Sweden, Finland (characterized by high taxation), we usually find developing countries where consumption taxes play an important role.

This is not a strict rule as among the countries in which the revenue is below the European average, with countries like Spain, Italy, the United Kingdom or France, appear countries like Latvia, Greece, Ireland, Romania, Slovakia. We find here the influence of consumption taxes income level and the tax rates applied.

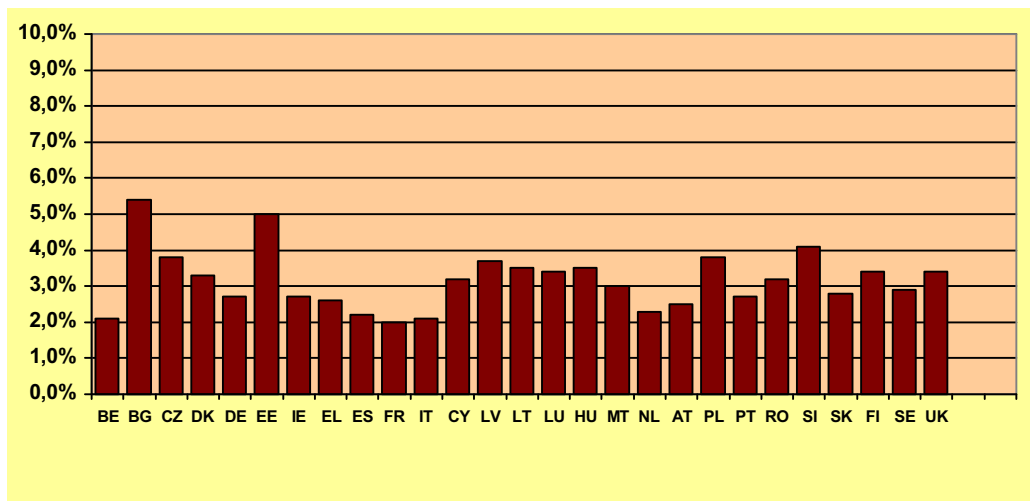
The share of revenues from excise duties and other consumption taxes in GDP, during 2000-2009, is presented in the European Commission report, and the graphics reflecting their participation in the formation of budget revenues in 2009 are shown in graph 4.

By analyzing the data presented in the European Commission's report we can say that revenues from excise duties remained constant throughout the Union in the decade under review, with variations between 3.0 -3.3% during this period.

Among member countries, eleven of them recorded increases in revenue from excise duties and other taxes on consumption. The biggest increases were registered in Estonia (2.1 percentage points), Bulgaria (1.5 percentage points) and Slovenia (1.1 percentage points), followed, almost without exception, by the newly Member States that, although often benefited of exemptions, had to make efforts to align to the excise duties level within the EU. The other European countries recorded reduction under one percentage point, except Luxembourg (-1.1 percentage points).

Graph no. 4

Revenues from excise duties in 2009 (% of GDP)



Source: data processed from *Taxation trends in the European Union*

In 2009, revenues from excise duties and other taxes on consumption exceed the European average (3.2% of GDP) in twelve states, headed by Bulgaria (5.4%), Estonia (5.0%) and Slovenia (4.1%), in two countries (Cyprus and Romania) the revenues equal the European average, while in the other thirteen countries the revenues are below the European average. We noted that in 2009 revenues from excise duties at EU-27 level were about 9% of all tax levies and almost a quarter (23.8%) of revenues from indirect taxes, therefore an important contribution.

3. CONCLUSIONS

In most European Union Member States, taxes on consumption are particularly important in making necessary revenues for public budgets. In less developed countries and newly acceded to the EU-27 block, these taxes have a greater contribution, having economies based on consumption. The most important among these taxes is the value added tax.

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