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TAXES AND SOCIAL CONTRIBUTIONS IN THE EUROPEAN UNION

- First results for 1995 -

As in previous years, this issue of 'Statistics in Focus' presents provisional figures on the level of taxes and social contributions in the Member States of the European Union (EU). The shortly forthcoming Eurostat Publication 'Taxes and Social Contributions 1983-1994' and the EU-database 'New Cronos'¹ contain considerably more detailed data up to 1994.

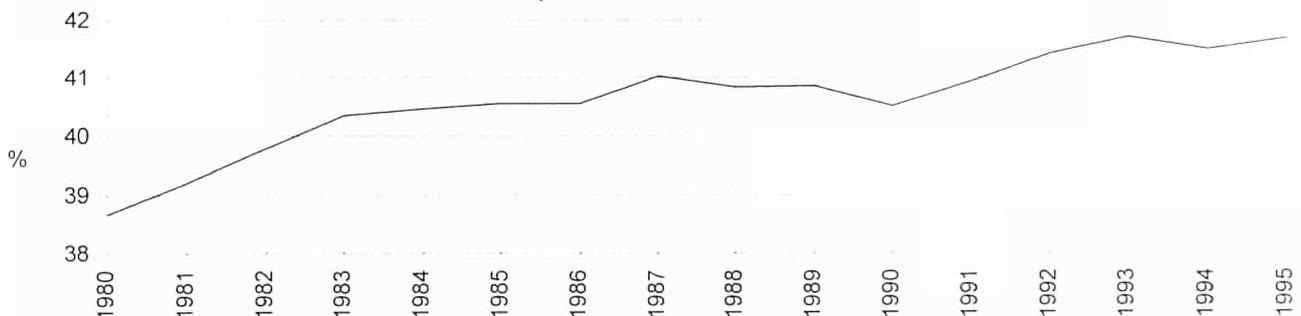
Methodological notes on the data, which was collected in accordance with the European System of Integrated Economic Accounts (ESA), are to be found in Box 2.

Rise in the tax and social contribution ratio in 1995

After the ratio of taxes and social contributions in per cent of gross domestic product (GDP) decreased in 1994 by 0.2 percentage points, it increased in 1995 by 0.2 percentage points to approximately 41.7 %, reattaining its peak value of 1993. Taking a longer-term point of view reveals that during the years 1980-1995 the ratio rose by three percentage points from 38.7 to 41.7 % of GDP (figures 1 and 2, table 1).



Figure 1: GDP-proportions of taxes and social contributions in the European Union, 1980-1995, in %



¹ Detailed information on the EU-database 'New Cronos' is available from Eurostat Data Shop, 2 rue J. Engling, L-1466 Luxembourg. Tel. +352.43.35.22.51 Fax +352.43.35.22.221

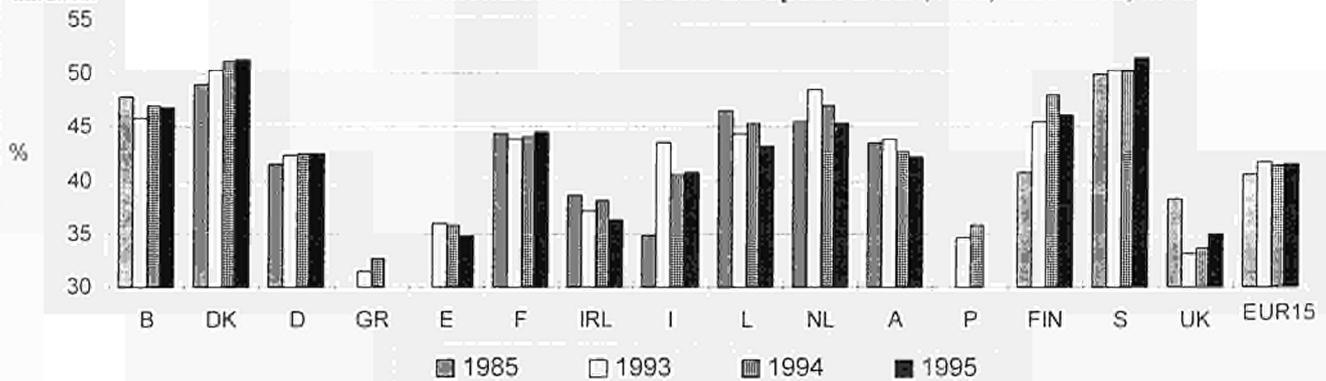
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Figure 2: GDP-proportions of taxes and social contributions in the Member States of the European Union, 1985, 1993-1995, in %



During this period stable or declining ratios were evident for four years, while the taxes and social contributions grew faster than the GDP in the other 11 years.

A comparison of the changes in growth rates of the nominal EU-GDP (in ECU) and the public revenues of taxes and social contributions is undertaken in figure 3. It shows rather apparent similarities between the business cycle and receipts from taxes and social contributions.

Similar influence of the taxes ...

The 1995-value of the tax ratio rose by just 0.08 percentage points, remaining at 26.7 % due to rounding. Thus it remained below the EU maximum value of 27.2 % which occurred 1989.

Table 1: GDP-proportions of taxes and social contributions in the European Union, 1980- 1995, in %

	Taxes	Social contributions	Total
1980	25.5	13.2	38.7
1981	25.9	13.3	39.2
1982	26.2	13.6	39.8
1983	26.5	13.9	40.3
1984	26.7	13.8	40.5
1985	26.7	13.8	40.6
1986	26.6	13.9	40.6
1987	27.0	14.0	41.0
1988	27.0	13.8	40.8
1989	27.2	13.6	40.9
1990	26.8	13.7	40.5
1991	26.8	14.1	40.9
1992	27.0	14.5	41.4
1993	26.8	14.9	41.7
1994	26.7	14.8	41.5
1995	26.7	14.9	41.7

Totals may differ due to rounding

Figure 3: Changes in growth rate for GDP and taxes and social contributions, in percentage points

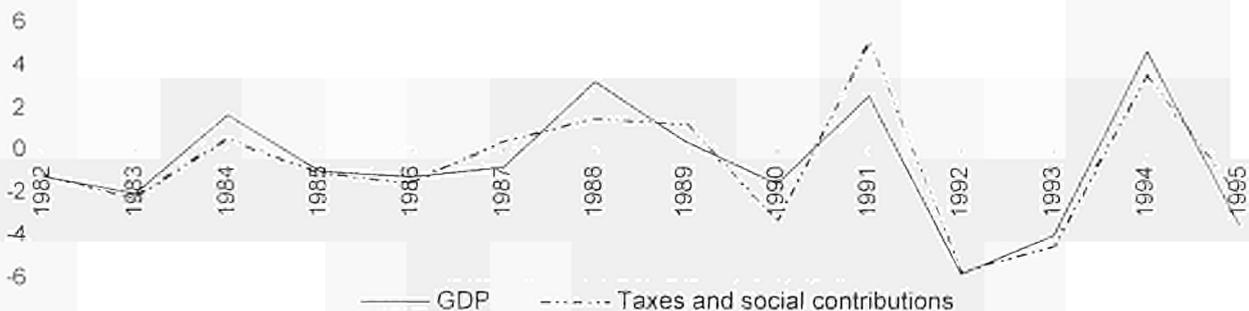


Figure 4: GDP-proportions of taxes in the European Union, 1980-1995, in %

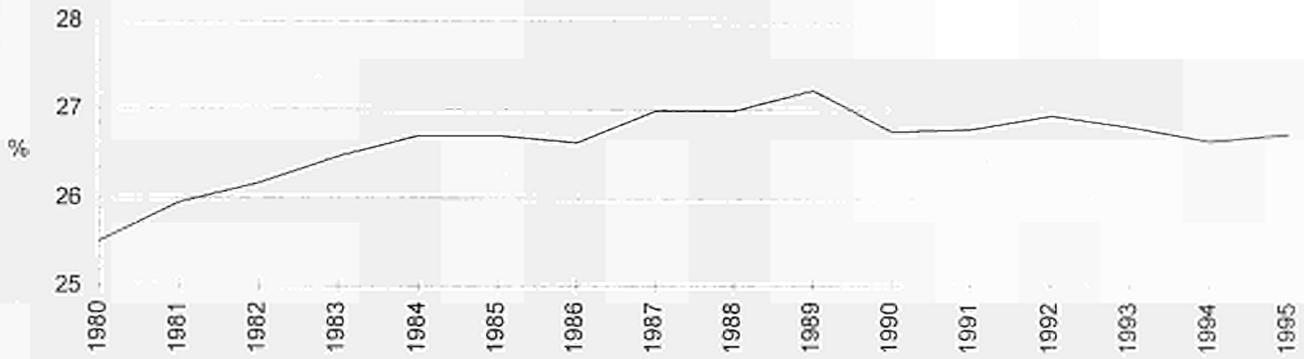
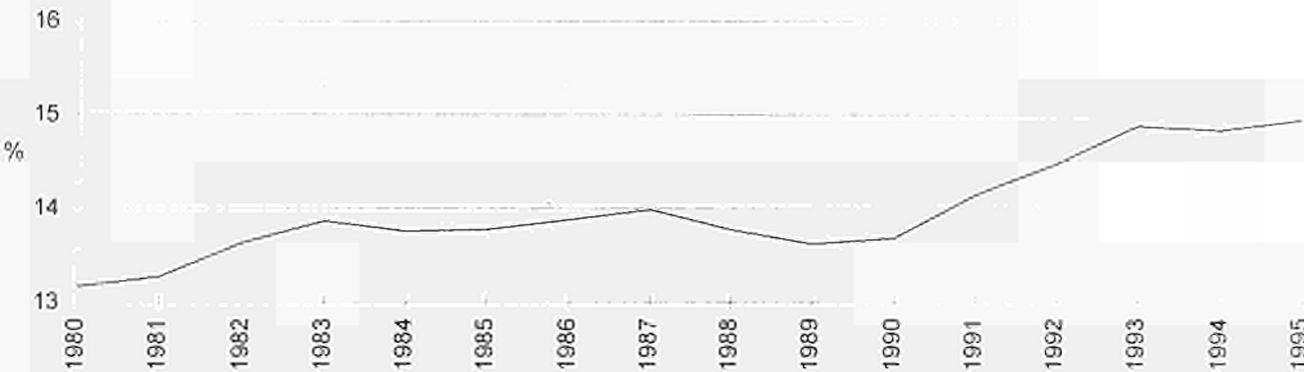


Figure 5: GDP-proportions of social contributions in the European Union, 1980-1995, in %



This 1989 peak marked the end of a development during the eighties, which showed an almost continuous increase in the tax ratio by nearly two percentage points. In the first half of the nineties, it fluctuated around a small margin of 0.3 percentage points (figure 4, table 1).

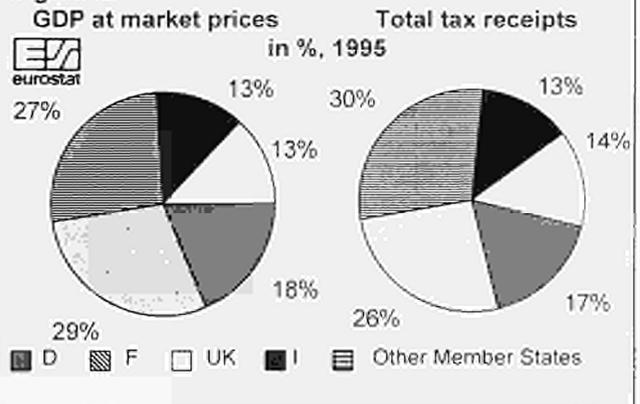
and an increase of social contributions from 1990 to 1995. This is also reflected in the share of the taxes in the total of taxes and social contributions, which increased from 65.9 % in 1980 to 66.5 % in 1989 and then fell back to 64 % in 1995.

... and the social contributions

In 1995 social contributions rose by approximately 0.1 percentage points to 14.9 % reaching again the EU maximum value of 1993 (figure 5, table 1). This peak value of 1993 was preceded by a continuous growth in the social contributions ratio since 1989, while the development before in the period 1980-1989 was rather more stable.

In a longer-term perspective of the components of the rising tax and social contributions ratio, one finds primarily growing tax ratios between 1980 and 1989

Figure 6:



Considerable weight of a few Member States

The EU averages determined in this publication are calculated from the national tax and social contribution ratios weighted with the respective Member States' share of the EU's GDP.

Therefore the largest Member States have a dominant influence on the development of the EU average. Consequently, even a remarkable change in a small Member State will only have a minor effect on the EU average.

Figure 6 offers a comparison of the sizes of EU Member States and hence their weights for the average.

In 1995, the four largest Member States accounted for approximately both three quarters of the entire EU-tax revenue and of the EU-GDP.

Different developments in the Member States ...

In 1995, four of the 13 Member States, for which data is already available, showed an increase of the tax and social contribution ratio in GDP (table 2). The strongest rises were registered by two countries: Sweden, whose tax and social contribution ratio has now become slightly higher than that of Denmark, which previously had the highest ratio, and the United Kingdom which also saw a relatively high increase; its value of 34.9%, however, continues to remain considerably below the EU average. Larger reductions in the ratio of more than 1.5 percentage

points occurred in Ireland, Luxembourg, the Netherlands and Finland.

A comparison of the components of the tax and social contribution ratio shows a lower tax ratio in GDP by at least one percentage point in four Member States (Ireland, Luxembourg, the Netherlands and Finland) and an increase of 1 percentage point or more only in the United Kingdom (table 3).

The change in the share of social contributions was under one percent of GDP in all Member States (table 4). In eight EU countries the social contribution ratio went down, in the other five Member States with available data for 1995 it rose.

... and considerable differences in level

As can be seen in tables 2 to 4 and in figures 7 and 9, in addition to differing evolutions, the level of taxes and social contributions also varies considerably. Two Member States (Denmark with 51.4 % and Sweden with 51.5 %) have taxes and social contributions of over 50 % of GDP. Between 42 % and 48 % lie Belgium, Germany, France, Luxembourg, the Netherlands, Austria and Finland, while the other Member States with the exception of Ireland (36.3 %) and Italy (40.7 %) levy taxes and social contributions between 32 % and 36 % of the GDP. An interpretation of these figures, however, should be performed with care (see Box 1).



Table 2: Taxes and social contributions in the Member States of the European Union, in % of GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
B	44.7	45.3	46.9	46.8	47.8	47.9	47.3	47.7	46.3	44.7	45.1	45.1	45.2	45.8	47.1	46.8
DK	45.6	45.5	44.6	46.5	47.7	49.1	50.9	51.6	51.6	50.7	48.7	48.9	49.5	50.4	51.3	51.4
D	41.6	41.4	41.5	41.0	41.3	41.6	40.9	41.1	40.8	41.3	39.5	41.2	41.9	42.4	42.7	42.6
GR										28.7		30.1	31.0	31.6	32.6	
E	25.8	26.8	26.7	28.7	29.1	30.0	30.9	33.1	33.3	35.2	35.1	35.3	37.0	36.0	35.8	34.8
F	41.7	41.9	42.8	43.6	44.6	44.5	44.0	44.5	43.8	43.7	43.7	43.9	43.6	43.9	44.1	44.6
IRL	34.4	35.5	37.1	38.6	39.5	38.6	38.1	38.3	39.3	36.1	35.9	36.4	36.9	37.1	38.1	36.3
I	30.5	31.5	34.0	35.8	34.9	34.7	35.3	36.0	36.6	38.2	38.8	39.8	42.0	43.5	40.7	40.7
L	46.3	47.8	49.2	51.8	50.1	46.5	43.8	44.2	42.9	42.0	43.2	42.5	42.5	44.5	45.3	43.3
NL	46.0	45.4	46.3	47.2	45.7	45.5	45.9	48.2	48.4	45.4	45.1	47.5	47.4	48.6	47.0	45.4
A	41.9	42.9	41.9	41.6	42.8	43.6	43.2	42.7	42.3	41.3	41.6	42.2	43.3	43.9	42.8	42.3
P	25.7	27.2	28.6	30.3	30.0	29.4	30.9	30.1	31.9	32.4	33.1	34.5	36.2	34.6	35.7	
FIN	36.9	38.9	37.8	37.6	39.2	40.8	42.2	40.3	43.2	43.4	45.4	46.8	46.8	45.5	48.0	46.3
S	49.1	50.0	49.2	50.4	50.2	50.0	51.8	54.6	54.6	56.3	55.8	52.8	51.2	50.4	50.4	51.5
UK	36.1	38.2	38.7	38.4	38.4	38.2	37.9	37.5	37.4	36.8	35.7	35.3	34.2	33.1	33.7	34.9
Ø	38.7	39.2	39.8	40.3	40.5	40.6	40.6	41.0	40.8	40.9	40.5	40.9	41.4	41.7	41.5	41.7

Box 1

The significance of the ratio of taxes and social contributions

The ratio of taxes and social contributions against the GDP (ratio) is often seen in public discussion as an indicator for government activity or for the individual tax burden on citizens or enterprises. This conclusion, however, only holds to a limited extent as important economic variables do not enter into this ratio. For example, the financing of government expenditure through an increase in public debt instead of taxes, lowers the ratio in the short run. With an assumed repayment of the debts, however, this increase in the ratio is only postponed.

A high ratio need not necessarily indicate a high (net) burden on enterprises or taxpayers. Statements concerning this can only be made if public expenditure is also taken into account. For the taxpayer, for example, it makes no financial difference whether support for families is granted through child benefit or through tax allowances. The tax ratio, however, is affected. In the latter case it would be lower than in the first mentioned case of child benefit. A similar reasoning applies to enterprises which either pay low taxes or receive subsidies in connection with the payment of high taxes.

Finally it is not justified to derive from tax ratios statements on government activity, because government intervention in the economic sphere need not necessarily be accountable in the budget.

The differences in the components of the level of the tax ratio and the level of social contributions are particularly large (tables 3, 4 and figures 7 and 9). Denmark with 49.7 % and 1.6 % has the highest tax and the lowest social contribution ratio in the Union. Above the EU's average tax ratio of 26.8 % are the Nordic countries, Belgium, Ireland, Italy, Luxembourg, Austria and the United Kingdom. Five countries (Belgium, Germany, France, the Netherlands and Austria) have a ratio of social contributions above average.

Figure 7 sets these values in relation to the GDP per capita. A positive correlation seems to exist between the tax and social contribution ratio and the GDP per capita.

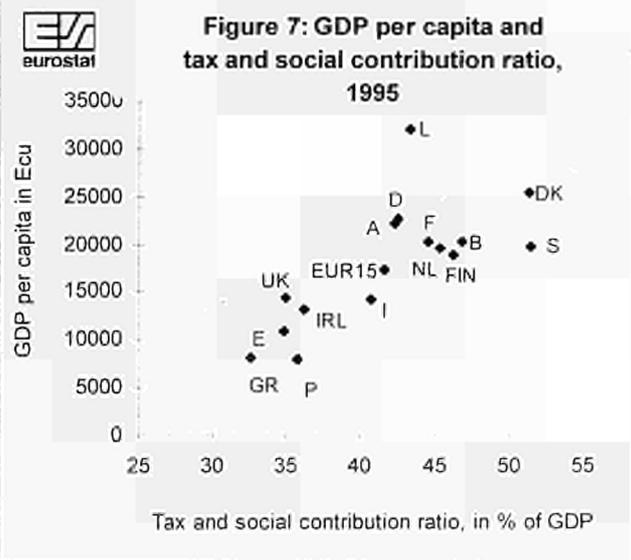


Figure 8 considers potential statistical correlations between real GDP growth and the average ratio of taxes and social contributions for the period 1980 to 1993. Here, a slight negative correlation of higher real growth and a relatively low tax and social contribution ratio seems to exist.

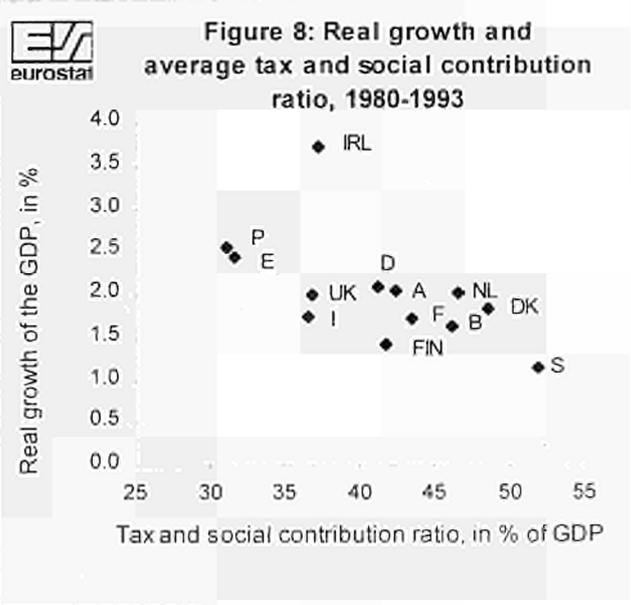
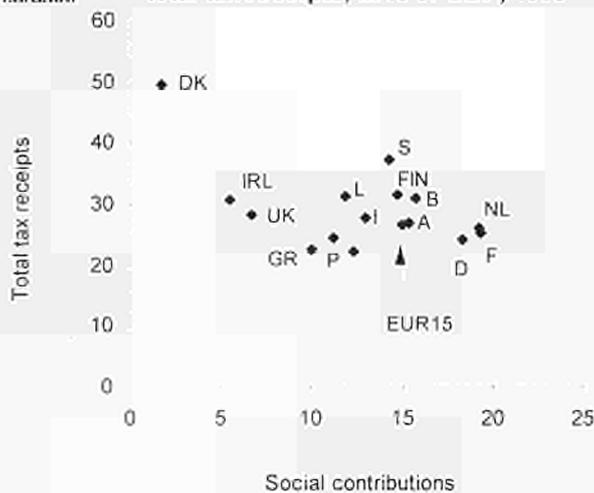




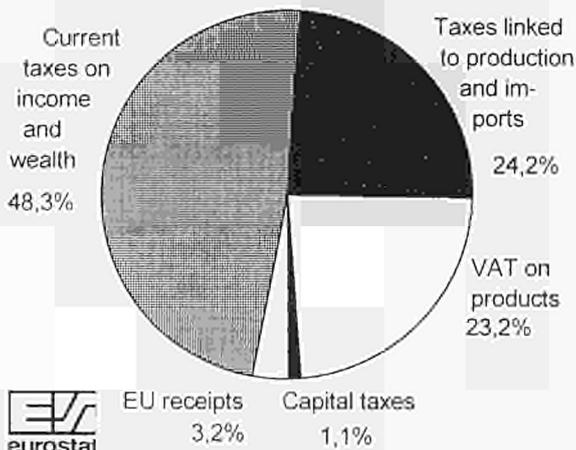
Figure 9: Social contributions and total tax receipts, in % of GDP, 1995



Change in the tax structure ...

Figure 10 describes the tax structure of the EU Member States in the year 1995. In the Union, about half of all tax revenues are derived from income taxes and a bit less than a quarter each from value added tax and taxes linked to production and imports.

Figure 10: Structure of tax receipts in the Member States of the EU, 1995



Box 2

Methodological Remarks

The data published here is partly based on preliminary data from the Member States' statistical offices. Common base is the European System of Integrated Economic Accounts (ESA). If not otherwise indicated, the values include taxes and contributions which are levied on behalf of the EU (import duties, VAT-part, agricultural levies).

For the calculation of the EU average of 1995, the latest available figure (1994) for Greece and Portugal has been included; for the respective 1995 value, however, not available (":") has been introduced. Due to incomplete data for Greece (1980-1989 and 1991), the EUR15 average for these years has been calculated as the average of the 14 Member States with available data, weighted with their portion in EU-GDP. As this country has a relatively low weight in EU, this assumption has negligible effects on the EU values.

In most tables, '% of GDP' has been chosen as point of reference. With the exception of the calculation of the EU average, the influence of exchange rate developments has thereby been weakened. In particular the weight of countries with large exchange rate adjustments has changed, which leads to a different weighting of these countries' tax and social contribution ratios.

The figures for Germany include from 1991 onwards the former German Democratic Republic.

In 1995, changes of one percent or more in GDP occurred in four cases: more than one percentage point fall in taxes on income and wealth in Ireland and value added tax in Austria, as well as exactly one percentage point fall in taxes linked to production and imports in Luxembourg and value added tax in Sweden.

Table 3 gives information on the evolution of the most important taxes in thirteen EU-Member States. In contrast to figure 10, putting individual tax data in relation to all tax receipts, table 3 points out the development of the taxes expressed in per cent of GDP.

EU eurostat	Current taxes on income and wealth				Taxes linked to production and imports				VAT on products				Total			
	1985	1993	1994	1995	1985	1993	1994	1995	1985	1993	1994	1995	1985	1993	1994	1995
B	19.7	16.6	17.9	18.3	4.2	5.0	5.1	4.9	6.8	6.3	6.6	6.4	32.3	29.5	31.2	31.1
DK	28.6	31.0	31.4	31.6	8.2	7.5	7.8	7.8	9.2	9.3	9.5	9.3	47.2	48.8	49.6	49.7
D	12.6	11.5	11.1	11.3	5.8	5.8	6.0	5.9	5.9	6.2	6.4	6.1	25.3	24.6	24.5	24.3
GR	5.4	5.7	6.9		14.2	8.4	8.0		0.0	6.3	6.4		20.5	21.6	22.6	
E	8.5	12.0	11.5	11.5	9.5	4.9	5.1	5.0	0.0	4.7	5.1	5.1	18.2	22.8	22.7	22.5
F	9.1	9.2	9.4	9.5	6.9	7.2	7.4	7.4	8.1	6.6	6.7	6.9	25.2	24.3	25.0	25.3
IRL	14.3	15.8	16.1	14.8	9.6	7.7	8.1	7.8	7.3	6.3	6.8	6.9	32.6	31.2	32.4	30.8
I	13.1	16.3	15.1	14.8	4.2	6.9	6.6	6.6	4.8	5.2	5.1	5.2	22.8	29.8	27.6	27.8
L	18.3	14.7	16.1	15.5	9.9	10.7	10.6	9.6	5.0	5.6	5.4	5.4	34.4	32.1	33.2	31.5
NL	12.7	16.8	14.1	13.0	4.2	5.5	6.1	5.6	6.8	6.2	5.7	6.2	25.0	30.0	27.4	26.2
A	13.0	13.0	11.4	12.0	7.6	7.4	7.5	7.3	9.2	8.6	8.7	6.9	29.8	29.1	27.6	27.0
P	7.8	9.3	9.2		13.2	7.9	7.4		0.0	5.6	6.7		21.2	23.8	24.6	
FIN	17.2	16.0	17.8	17.7	14.4	6.7	6.5	6.0	0.0	8.1	8.1	7.5	31.7	31.0	32.6	31.6
S	21.0	20.9	21.5	21.9	9.5	7.2	6.9	7.4	7.0	8.5	8.2	7.2	37.5	36.6	36.6	37.3
UK	15.3	12.2	12.7	13.5	9.1	7.3	7.1	7.4	5.4	6.0	6.2	6.2	31.1	26.6	27.1	28.2
Ø	13.0	13.0	12.7	12.9	7.0	6.5	6.6	6.5	5.7	6.2	6.3	6.2	26.7	26.8	26.7	26.7

EU-receipts (approximately 0.9 % of GDP) and capital taxes (approximately 0.3 % of GDP) do not appear in this table due to their relative insignificance.

... and the structure of the social contributions

The development of the structure of social contributions is summarized in table 4 for the years 1985 and 1993-1995. The average ratio of the social contributions to the GDP for those 13 countries with detailed data is unchanged for three years at the level of 15 % of GDP. Within this ratio the structure has changed with a lower share by employers and an increasing share by employees and Others.

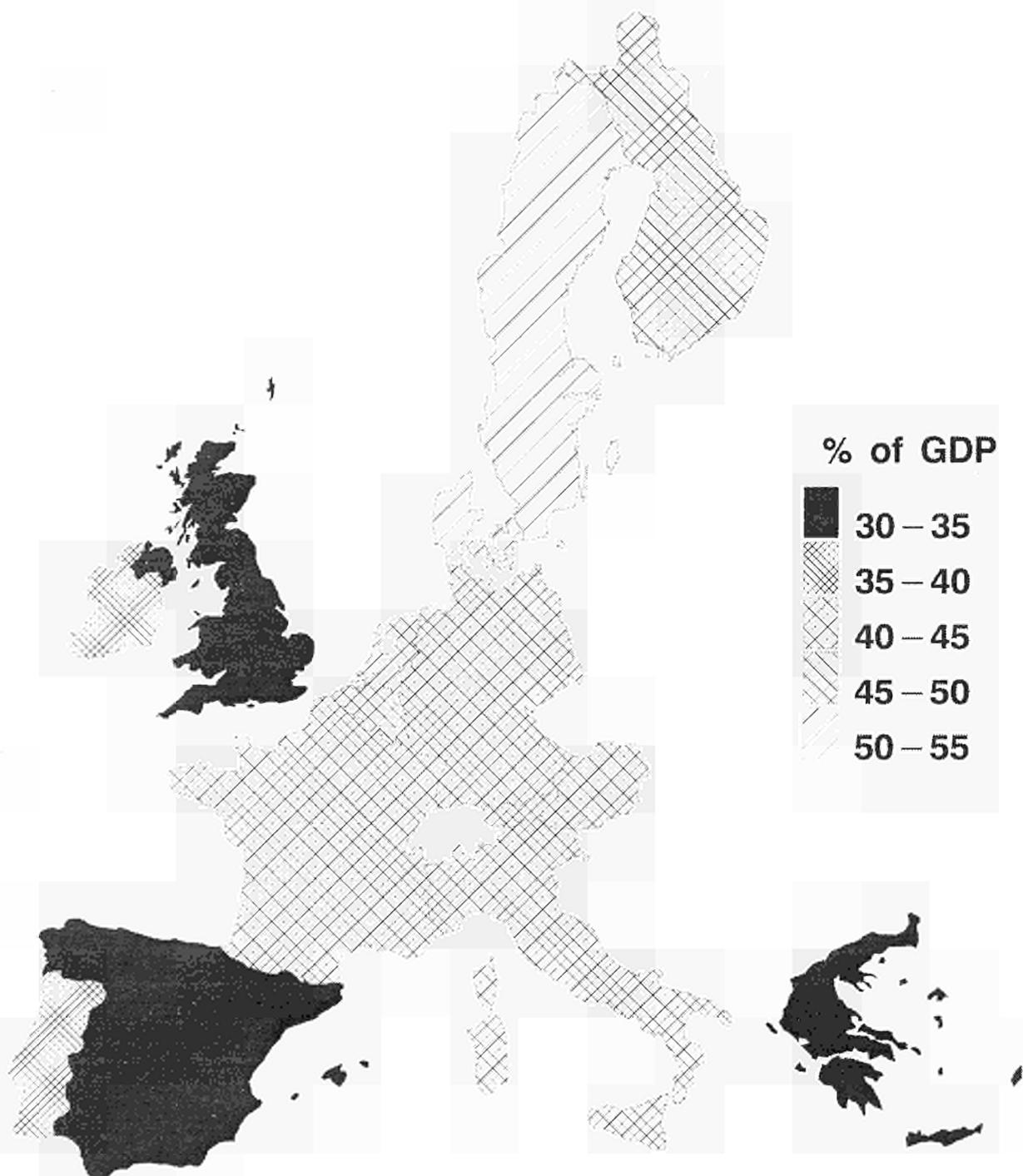
The largest changes (0.5 % or more of GDP) occurred in Spain (lower employer contributions), Finland (lower ratio of social contributions), in the Netherlands (increasing employer contributions and lower employee contributions) and in Sweden, with lower employer and higher employee contributions in relation to the GDP.

EU eurostat	Employers				Employees				Others				Total			
	1985	1993	1994	1995	1985	1993	1994	1995	1985	1993	1994	1995	1985	1993	1994	1995
B	9.1	9.8	9.5	9.3	5.2	5.3	5.2	5.2	1.3	1.2	1.2	1.2	15.6	16.3	15.9	15.7
DK	0.9	0.3	0.3	0.3	1.0	1.3	1.3	1.3	0.1	0.0	0.0	0.1	1.9	1.7	1.7	1.6
D	7.5	8.0	8.1	8.1	6.4	7.0	7.1	7.1	2.4	2.9	3.0	3.1	16.3	17.9	18.2	18.3
E	8.3	9.2	9.0	8.5	2.0	2.2	2.3	2.1	1.5	1.9	1.8	1.7	11.9	13.2	13.1	12.3
F	12.5	12.0	11.8	11.9	5.2	6.0	5.9	5.9	1.6	1.6	1.5	1.5	19.3	19.6	19.2	19.3
IRL	3.6	3.4	3.2	3.2	2.4	2.3	2.3	2.1		0.2	0.3	0.2	6.0	5.9	5.8	5.5
I	8.6	9.1	8.7	8.6	2.3	2.8	2.8	2.7	1.1	1.8	1.6	1.7	12.0	13.7	13.0	12.9
L	6.0	6.1	5.7	5.5	4.4	4.7	4.7	4.7	1.7	1.7	1.7	1.7	12.1	12.4	12.1	11.9
NL	7.9	3.7	3.2	3.7	8.8	11.1	12.5	11.8	3.8	3.9	3.9	3.7	20.5	18.6	19.6	19.2
A	6.8	7.2	7.3	7.3	5.8	6.4	6.6	6.7	1.2	1.2	1.3	1.3	13.8	14.9	15.1	15.3
FIN	7.0	10.3	10.3	10.2	1.5	2.7	3.3	3.1	0.7	1.6	1.7	1.3	9.2	14.5	15.3	14.7
S	11.9	13.0	12.6	12.1	0.0	0.4	0.9	1.7	0.6	0.4	0.3	0.4	12.5	13.8	13.8	14.2
UK	3.4	3.6	3.5	3.5	3.5	2.7	2.9	3.0	0.2	0.2	0.2	0.2	7.1	6.6	6.6	6.7
Ø*	8.0	8.2	8.0	8.0	4.4	5.0	5.1	5.2	1.5	1.8	1.8	1.9	13.8	15.0	15.0	15.0

*without Greece and Portugal, therefore EU averages might slightly differ between Tables 1 and 4.

Taxes and social contributions in the European Union

1995



Greece : 1994

Portugal : 1994