

TAXES AND SOCIAL CONTRIBUTIONS IN THE EUROPEAN COMMUNITY

The statistics on taxes and social contributions¹ compiled in accordance with the methodology of the European System of Integrated Economic Accounts (ESA) give a highly detailed picture of the situation and trends with regard to the various receipts of the State (central government, local government and social security funds), including taxes collected on behalf of the European Community. A number of central aspects are described below.

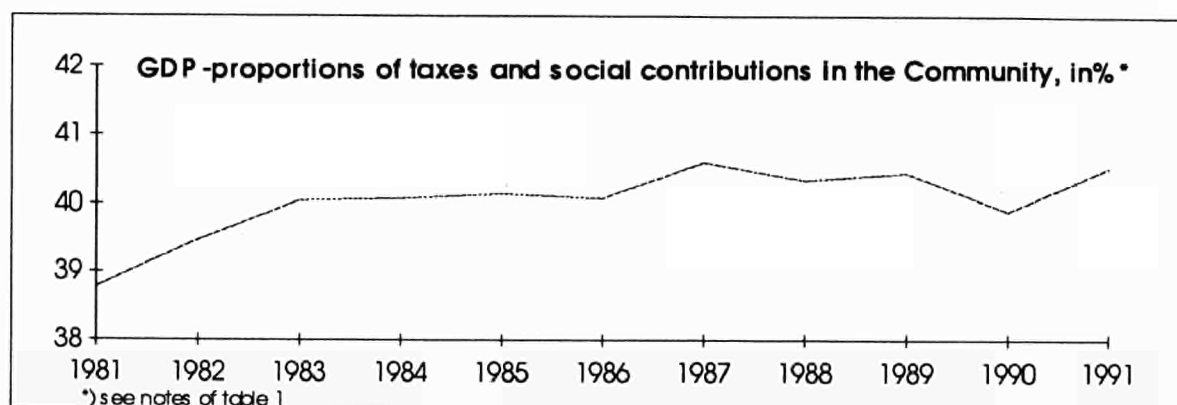
The proportion of taxes and social contributions in the Community rises again in 1991

Measured as a proportion of gross domestic product (cf. graph below and Table 1), taxes and social contributions showed a steady rise between 1981 and 1983, which was followed by a period of virtual

stabilisation at slightly over 40% up to 1986.

Following fluctuations between 40.3% and 40.6% in the next three years and a slump to under 40% in 1990, there is a rise to over 40.5% in 1991. The overall upward trend in the period under review is only broken in the years 1986, 1988 and 1990.

The trend in the case of taxes is nearly twice as steep than for social contributions. The pronounced fall of the total proportion in 1990 and its rise in 1991 (-0.56/+0.65 points) are mainly determined by the corresponding variation of the proportions of taxes (-0.60/+0.47 points). When comparing these figures it should be borne in mind, however, that the tax and social contribution systems differ widely from one Member State to another.



¹ Statistical Office of the European Communities, Taxes and Social Contributions 1980-1991, Theme 2, Series C, Brussels/Luxembourg 1993.

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Overall trend towards convergence in the national proportions of taxes and social contributions

A look at the overall situation and trends with regard to the proportions of taxes and social contributions in the individual Member States in 1991 compared with 1981 and 1986 (Table 2, graph on next page) shows quite clearly that there were still considerable differences in the national tax and social security burdens in 1991, although the gap had narrowed from 20 to 13.5 percentage points.

The figures for the third year in the comparison show a clear asymmetry in the proportions above and below the EC average. There are five Member States in the range below the line, which is restricted to about 5 percentage points over the period under review, whereas the six Member States in the range above the line, which extends to about 8 percentage points, show no uniform overall trend.

Among the individual Member States there is a clear dominance of two trend patterns which more or less balance each other out, namely those with a steady rise in the overall proportions over the three years compared and those where the proportions rose first of all and then fell back.

Of the major economic powers in the Community, Italy and Spain had by far the largest increases in the overall proportions between 1981 and 1991, although it must be said that the level was relatively low at the beginning of the period. With a figure of 35% in 1991, the United Kingdom was not only well below its level

Table 1

GDP-proportions of taxes and social contributions in the European Community 1981-1991*, in %

	taxes**	social contrib.***	total
1981	25.42	13.35	38.77
1982	25.68	13.79	39.47
1983	25.98	14.06	40.04
1984	26.11	13.96	40.07
1985	26.18	13.96	40.14
1986	26.03	14.05	40.07
1987	26.43	14.17	40.60
1988	26.42	13.92	40.34
1989	26.66	13.78	40.44
1990	26.06	13.83	39.88
1991	26.53	14.00	40.53

*) Total receipts of general government and the EC.
(Without Greece, Portugal and the new German Länder).
**) Including taxes levied for the EC.
***) Figures for E and IRL 1991 estimated.

at the start of the period but also at the lower edge of the spread for 1991.

Following a rise of 2 percentage points between 1981 and 1991 to almost 44%, France had clearly the highest level of the biggest Member States. For Denmark, Luxembourg and the Netherlands the proportions are showing very high levels for the whole observation period and the figures for 1991 (about 48%) are by far the highest in the whole Community.

Table 2

Total receipts of the Member States and according to main categories, in % of GDP 1981, 1986 and 1991

	total			taxes**			social contributions***		
	1981	1986	1991	1981	1986	1991	1981	1986	1991
B	45.40	47.43	45.10	31.52	31.51	29.20	13.88	15.92	15.90
DK	45.43	50.81	48.05	44.42	49.22	46.54	1.01	1.59	1.51
D*	41.42	40.92	41.38	25.22	24.64	25.27	16.20	16.28	16.10
GR	:	:	:	:	27.62	39.99	:	:	:
E	26.81	30.94	35.19	14.66	19.20	22.83	12.15	11.74	12.37
F	41.89	43.97	43.86	24.12	25.12	24.59	17.77	18.84	19.27
IRL	35.84	39.71	38.03	30.53	33.79	32.17	5.30	5.92	5.86
I	31.45	35.27	39.80	20.00	22.90	26.66	11.45	12.38	13.14
L	46.55	48.13	48.52	32.79	35.73	34.34	13.76	12.39	14.17
NL	44.80	44.88	47.65	26.50	25.58	29.85	18.30	19.30	17.81
P	:	33.92	:	:	24.43	:	9.91	9.49	:
UK	38.19	37.95	35.02	31.57	30.77	28.24	6.62	7.17	6.78
EUR12	38.77	40.02	40.53	25.42	26.03	26.69	13.31	14.01	14.00

*) excl. new Länder, **) incl. own resources of the EC, fig. for Greece 1991 estim., ***) fig. for Spain and Ireland 1991 estim.

Differing trends in the individual national proportions of taxes and social contributions

Dividing the overall proportions of GDP into figures for taxes of central and local government and EC-Institutions on the one hand and statutory social security funds on the other (Table 2) shows quite clearly the structural heterogeneity of the national systems.

The extremes range from Denmark, where social security is financed almost entirely from government budgets and self-financed social security accounts for a correspondingly low proportion of GDP, to Member States where self-financed social security accounts for almost a fifth of GDP. In the vast majority of Member States the social security sector assumes economically very significant proportions with 10% or over.

Whereas the horizontal comparisons give only a rough picture of the structural aspects of the various systems, the national trends for the two components (taxes, social contributions) give a much clearer overall picture. They show in particular some of the fundamental features of the moves towards adjustment over a period which in the case of the last two years in the comparison comprises the bulk of the road leading to the EC internal market.

Although the tax receipts of central and local government (together with those of the EC institutions) rose in six out of ten Member States

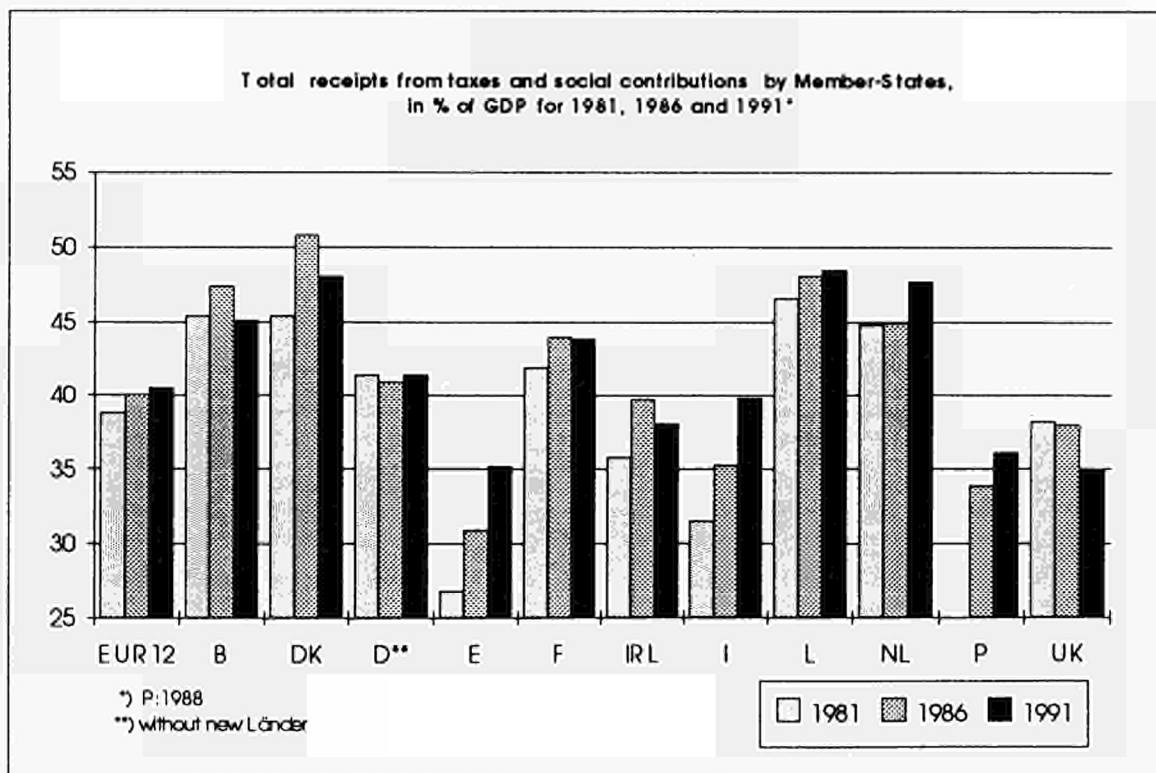
between 1981 and 1986, they fell in six out of eleven between 1986 and 1991. Compared with 1991 only Belgium and the United Kingdom are at a lower level in 1991.

Receipts from social contributions increased in eight out of eleven Member States in the first period and in the second one the decreasing figures prevail with six of ten cases. The 1981/1991 comparison shows only for Germany and the Netherlands a shallow decrease of proportions.

Of the ten Member States for which a 1986/1991 comparison is possible, four show a fall in one proportion and an increase in the other, Italy and Spain have positive, Belgium, Denmark, Ireland and the United Kingdom have negative rates of change respectively in both cases.

Little adjustment of national tax structures

Alongside the structural aspects of the receipts of government and social security funds, the pattern of the internal structure of tax receipts is worthy of special attention. On the basis of the data which are broken down in great detail by type of tax, a large number of aggregations to common classifications can be made. According to the ESA classification taxes are broken down into current taxes on income and wealth, taxes linked to production and imports excluding VAT, non-deductible VAT and capital taxes.



The structure of tax receipts in the Member States shows two things quite clearly in the first instance: on the one hand, as in 1981 and 1986 current taxes on income and wealth were still the mainstay of the national tax systems in 1991, accounting in most cases for half or more of total receipts. Secondly, there is virtually no sign of a competition-induced adjustment of tax structures in the run-up to the single market.

The proportion of current taxes on income and wealth seems to show a trend to be between 50% and 60% in the various Member States - Greece and Portugal excluded - in 1991; however, these relatively small changes are scarcely proof of an increased pressure to adjust tax structures.

On the whole, the changes in the national tax structures during the period under review are more

indicative of inertia than of harmonisation. This is particularly true of the four main economic powers in the Community, with even France having by 1991 made only relatively minor changes to its tax structure. Structural adjustment effects are more apparent only in the case of the countries which joined the Community in the 1980s and between the proportions of taxes linked to production and VAT.

In the overall picture of the level and structure of taxes (Tables 2 and 3), both the 1981/86 and the 1986/91 comparisons are showing a pronounced reciprocal effect: falling (rising) proportions of taxes in GDP go hand-in-hand with rising (falling) proportions of taxes on income and wealth in the tax structure. This is true in five respectively six out of ten cases in the 1981/86 and the 1986/91 comparison.

Table 3

Structure of tax receipts in the Member States according to main categories of ESA in 1981/ 1986/ 1991												
Country	Current taxes on income and wealth			Taxes linked to production and imports excl. VAT			VAT on products			Capital taxes		
	1981	1986	1991	1981	1986	1991	1981	1986	1991	1981	1986	1991
B	61.49	63.92	59.98	13.40	13.90	15.78	23.89	21.25	23.03	1.22	0.93	1.21
DK	58.96	60.77	63.46	17.62	19.54	17.71	22.96	19.18	18.27	0.45	0.52	0.56
D*	50.41	52.10	49.57	24.27	24.35	24.54	25.03	23.14	25.47	0.29	0.42	0.41
GR**	:	26.33	27.04	:	72.18	39.18	:	0.00	32.11	:	1.49	1.67
E	48.86	43.41	54.79	49.74	32.66	22.05	0.00	22.94	22.25	1.40	0.99	0.91
F	36.92	38.37	39.39	26.82	28.73	28.81	34.92	31.42	29.10	1.35	1.49	2.70
IRL	44.20	47.27	49.36	38.44	29.48	28.30	17.03	22.90	21.75	0.33	0.35	0.60
I	56.91	58.47	56.30	20.21	21.01	21.69	22.46	20.12	21.24	0.42	0.40	0.78
L	56.96	54.70	49.68	27.66	29.90	31.15	15.02	15.06	18.69	0.37	0.34	0.48
NL	57.88	54.02	59.23	15.69	17.58	16.47	25.58	27.48	23.46	0.85	0.92	0.85
P**	:	28.88	31.67	:	42.86	40.43	:	27.04	27.08	:	1.22	0.82
UK	48.77	49.27	50.84	36.35	31.59	25.98	13.90	18.32	22.38	0.99	0.82	0.80
EUR12***	49.15	50.19	51.02	27.05	25.67	23.90	22.99	23.36	24.03	0.81	0.79	1.06

*) excl. the new Länder, **) third cross-section year: 1988, ***) excl. Greece and Portugal