eurostat

RAPID REPORTS

Economy and finance

1994 □ 4

ISSN 1016-0213

TAXES AND SOCIAL CONTRIBUTIONS IN THE EUROPEAN UNION

- Initial results for 1993 -

Statistics on taxes and social contributions compiled in accordance with the methodology of the European System of Integrated Economic Accounts (ESA) give a highly detailed picture of levels of and changes in the various government receipts[1] in the European Union and the Member States. A few key aspects will be developed and presented below on the basis of the initial results for 1993.

The Union's tax and social contribution ratios continue to rise in 1993

The share of the European Union's[2] gross domestic product (GDP) (*Graph 1, Table 1)* accounted for by taxes and social contributions, which had begun to rise in 1991, continued its upward movement in 1993, but at a slower rate. Although the share of such charges had

Graph 1

1) Eurostat, Taxes and Social Contributions 1980-1992, Theme 2, Series C, Brussels/Luxembourg 1994.

2) Since the appropriate data were not available, comparisons of Union values exclude Greece and Spain and EU tax resources.

Manuscript completed on = 23.08.1994

For further information please contact: M. TOSSTORFF / M. UNGAR
Eurostat, L-2920 Luxembourg, tel. 4301- 33755 / 34977 Fax: 4301-33879

Price (excl. VAT) in Luxembourg: Subscription ECU 227 Catalogue number: CA-NJ-94-004-EN-C

increased by as much as 0.9 percentage points in 1991, the rate of increase slowed to 0.5 percentage points in 1992 and fell back further to 0.4 points in 1993. In every year since 1991, however, the burden has reached a new high compared with the levels of the 1980s.

Movements in the period 1990 to 1993 differed from those of the previous period, which had seen a relatively sharp rise in government receipts between 1980 and 1983, in that the maximum rise came in the middle of the period (1982: 0.8 percentage points). The level of fiscal charges (taxes plus social contributions) reached about 40% of GDP in 1983 and stayed at that level, with a few minor fluctuations, for the next six years, with no noticeable reduction until 1990, when it fell to 39.3%. In 1993, the share of fiscal charges was 1.4 percentage points higher than the 1980 to 1992 average (39.7%).

In 1993, the tax ratio stabilizes in the Union as a whole, but social contributions again rise sharply

If fiscal charges are broken down into their two components, taxes and social contributions (*Graphs 2 and 3, Table 1*), it can be seen that tax ratios stagnated in 1993, whereas social contributions began to rise more rapidly again (1992 + 0.3 and 1993 + 0.4 points). The situation had been exactly the reverse in the first half of the 1980s, since social contributions had begun to stabilize as early as 1984, whereas the tax ratio had continued to rise until the following year. Whereas the 1992 and 1993 tax ratios settled at the level of the maximum burdens of the past decade, which had occurred in 1985 and 1989, social contributions in 1993 were almost one percentage point higher than the maximum shares in the 1980s.

Although the tax and social contribution systems of the Union Member States are extremely heterogeneous and may change over time, it is nevertheless safe to assume that social contributions have been the main factor in the unrelenting rise of the fiscal charge ratio in the Union since the start of the current decade. This is reflected in both the overall rise of 1.8 points between 1990 and 1993 - the rise in the tax ratio being only 0.5 points - and in the fact that by 1993 social contributions had exceeded the 1980 to 1992 average of 14% by almost 1.2 percentage points.

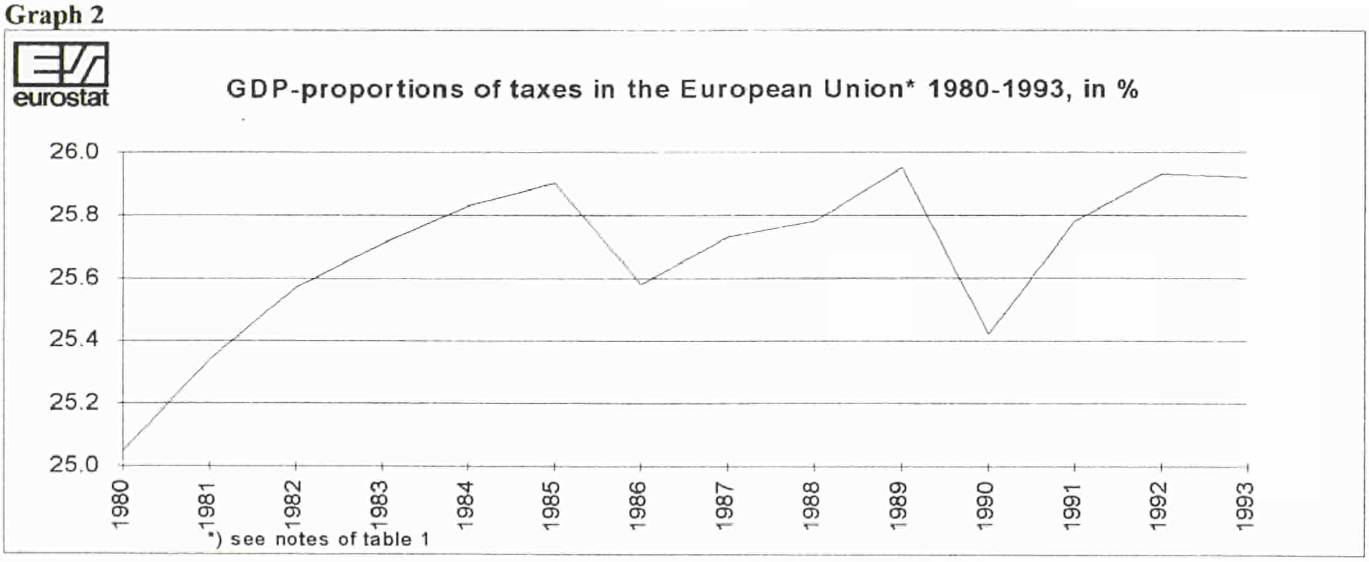
Table 1

GDP-proportions of taxes and social contributions in the European Union* 1980-1993, in %

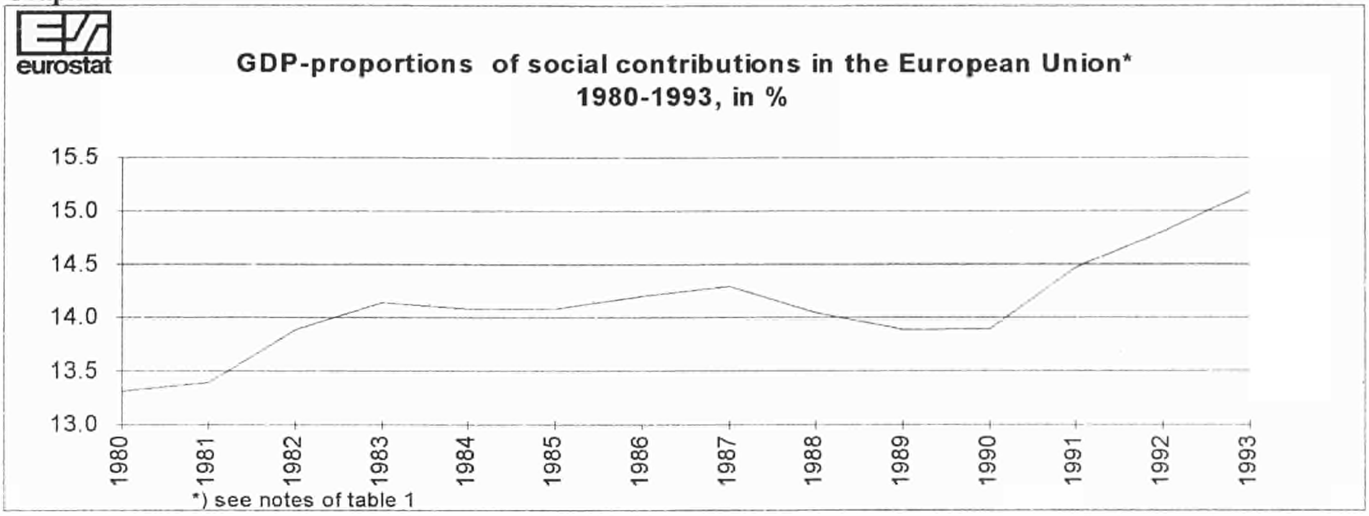
eurostat	taxes	social contributions	total
1980	25.1	13.3	38.4
1981	25.3	13.4	38.7
1982	25.6	13.9	39.5
1983	25.7	14.1	39.9
1984	25.8	14.1	39.9
1985	25.9	14.1	40.0
1986	25.6	14.2	39.8
1987	25.7	14.3	40.0
1988	25.8	14.0	39.8
1989	26.0	13.9	39.8
1990	25.4	13.9	39.3
1991	25.8	14.5	40.2
1992	25.9	14.8	40.7
1993	25.9	15.2	41.1

*) excl. Greece and Spain; excl. taxes levied for the European Union; figures for Germany from 1991 onwards including the new Länder.

Graph 2



Graph 3



General increase in national fiscal charge ratios, with differences becoming more marked

A glance at the situation in 1993 and current trends since 1990 as regards taxes and social contributions in the Member States as a whole (*Graph 4, Table 2*) shows quite clearly that in seven of the eleven Member States covered, movements closely paralleled changes in the figures for the Union as a whole. The exception was the United Kingdom, where the downward trend became a more rapid decline - by -1.6 points in 1993 as opposed to -1.2 points in 1992.

In France, the ratio of charges remained roughly stable between 1990 and 1993 at around 43%, and in Portugal, where they had risen by two percentage points in 1992, figures fell back to the 1990 and 1991 level. In Luxembourg, where ratios had been remarkably stable between 1990 and 1992, they shot up in 1993 to 52.7%, the highest in the Union.

Thus in 1993 Luxembourg moved clearly ahead of the other three Member States with traditionally high fiscal charge ratios, since, although the tendency in Belgium, Denmark and the Netherlands was also upwards, the ratios were lower by 7.5, 3.6 and 4.8 percentage points respectively. The gap between Luxembourg and the countries with the lowest ratios (Portugal and the United Kingdom) widened in 1993 to around 20 percentage points.

Graph 4

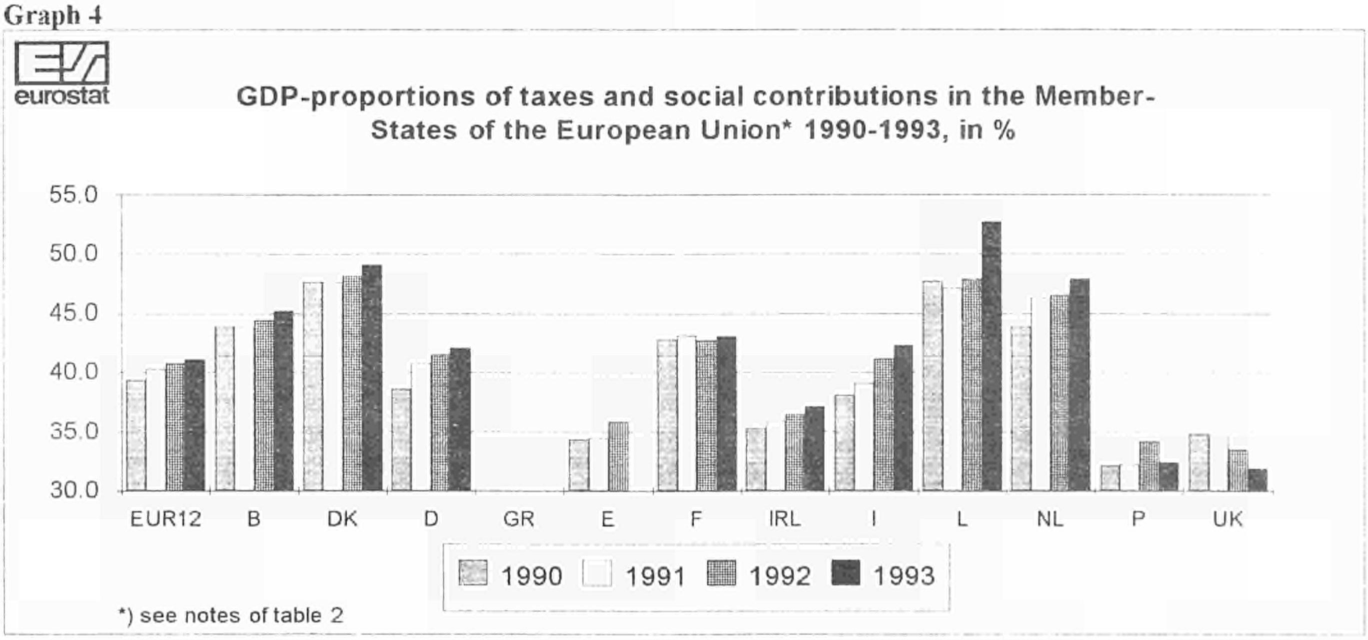


Table 2

GDP-proportions of taxes and social contributions by Member States of the European Union* 1990-1993, in %												
eurostat	taxes				social contributions				total			
	1990	1991	1992	1993	1990	1991	1992	1993	1990	1991	1992	1993
EUR12	25.4	25.8	25.9	25.9	13.9	14.5	14.8	15.2	39.3	40.2	40.7	41.1
B	28.5	28.0	28.1	28.5	15.5	15.9	16.4	16.7	43.9	43.9	44.4	45.2
DK	46.1	46.1	46.6	47.5	1.5	1.5	1.6	1.6	47.6	47.6	48.1	49.1
D	22.8	23.6	24.0	24.0	15.8	17.2	17.5	18.1	38.6	40.8	41.5	42.1
GR	:	:	:	:	:	:	:	:	:	:	:	:
E	22.2	22.1	22.9	:	12.2	12.4	13.0	:	34.4	34.5	35.8	:
F	23.5	23.8	23.2	23.4	19.3	19.4	19.6	19.6	42.8	43.1	42.7	43.0
IRL	29.7	30.1	30.5	31.0	5.6	5.8	6.0	6.1	35.3	35.9	36.5	37.1
I	25.2	26.0	27.8	28.8	12.9	13.1	13.3	13.5	38.1	39.1	41.1	42.3
L	34.1	32.9	33.1	36.9	13.5	14.2	14.8	15.8	47.7	47.1	47.9	52.7
NL	26.9	28.3	27.9	29.1	17.0	18.0	18.6	18.8	43.9	46.3	46.5	47.9
P	22.3	22.3	24.0	22.2	9.8	9.9	10.2	10.2	32.1	32.2	34.2	32.4
UK	28.2	28.0	26.8	25.4	6.7	6.7	6.7	6.5	34.8	34.7	33.5	31.9

*) excl. Greece and Spain: excl. taxes levied for the European Union; figures for Germany from 1991 onwards incl. new Länder.

In Denmark and the Netherlands, the ratio of fiscal charges was still around half as high again as in Portugal and the United Kingdom.

By contrast, the ratios for Germany, France and Italy were almost exactly the same in 1993, with only one percentage point difference between them. In Germany and Italy, too, they are now way above the Union average, at between 42 and 43%.

Although the ratio of fiscal charges has risen steadily in Ireland since 1990, in 1993 it was still 4 percentage points below the Union average. Finally, the ratio for Spain[1], which in 1990 and 1991 had been roughly the same as the United Kingdom figure, surged to well above the ratios of the two Member States with the lowest tax burdens in 1992.

If the tendency towards unity or diversity in the tax structure of the Union Member States[2] is measured in terms of average deviation from the Union value, the differences in tax burdens became smaller between 1990 and 1992, with the average deviation of 4.9 in 1990 falling to 4.7 in 1991 and to less than 4.6 percentage points in 1992.

In 1993, however, the differences in the tax burdens increased sharply again, with an average deviation of 5.5 points from the Union value, which was larger than even the 1990 difference.

In seven Member States, taxation accounts for an increasing share of GDP in 1993

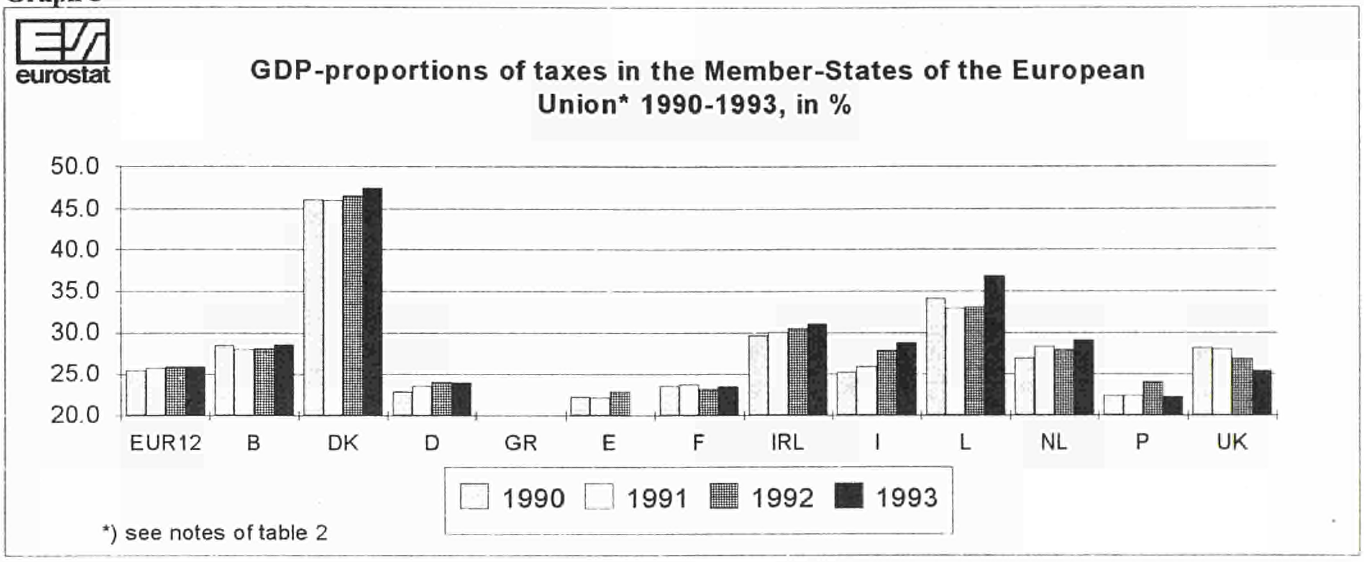
In seven of the ten Member States covered, the share of GDP accounted for by taxes (*Graph 5, Table 2*) rose further in 1993 than in the previous year. Compared with total fiscal charge ratios, however, the increase was moderate. In Germany, Portugal and the United Kingdom the ratios were lower than in the previous year, and with only a slight increase in 1992/93 the figures for France were still lower than they were in 1990 and 1991.

With steadily rising tax ratios, Italy's figures are now way above the Union average, whilst the United Kingdom was well below average in 1993. The ratios for Germany, France and Portugal are persistently below the Union average. The sharp rise in

1 Values for 1993 are not yet available for Spain. Figures for 1990-1992 show, however, that the Union average calculated without Spain for reasons of comparability would fall slightly in terms of level if Spain were included, and that the general trend would be virtually unchanged.

2 Excluding Greece and Spain. In the absence of erratic changes, the average deviation may be considered a sufficient measure of structural convergence or divergence.

Graph 5



Luxembourg in 1993 stands out, whereas in Belgium the ratio increased only slightly to return roughly to the 1990 level. The renewed rise in the tax ratio in Denmark, where the tax burden accounts for 47.5% of GDP, reflects the fact that the social system is financed almost entirely from taxes.

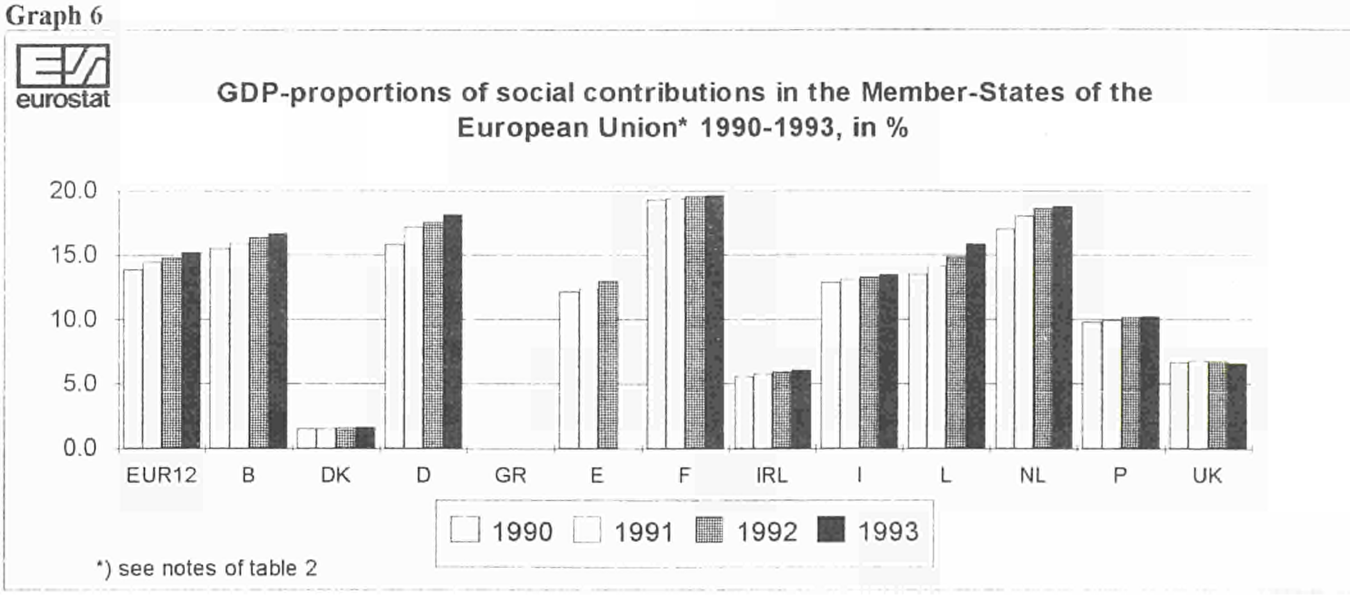
Measured by the average deviation, between 1990 and 1993 there was a steadily increasing mean deviation from the equivalent Union value in the case of the national tax ratios - in contrast to changes in the ratios for taxes and social contributions taken together. Although the deviation in 1990, at an average of 4.5 points, was still below that of the overall ratio, in 1991 and 1992, at 4.8 and 4.9 points respectively, it was clearly above the overall value. In 1993, however, the mean deviation from the Union value was much lower in the case of tax ratios than in the case of overall fiscal charges, at 5.1 points.

In nine Member States of the Union social contributions account for increasingly high percentages of GDP in 1993

In all the Member States covered apart from the United Kingdom, the share of GDP accounted for by social contributions (*Graph 6, Table 2*) rose further in 1993, with a steep rise in some cases. In the UK, where the ratio was already low, it fell back from 6.7% to 6.5%. Apart from in Denmark, where the percentage fell back slightly in 1991, the tendency was for ratios to follow the Union pattern of a steady increase between 1990 and 1993.

In contrast to tax ratios, the shares of GDP accounted for by social contributions were above the Union value in Germany and France, whilst in Italy and, in particular, the United Kingdom the percentages were below average. The ratios in Belgium and the Netherlands

Graph 6



were in every case above the Union values, and in Luxembourg in 1993 the social contribution share of GDP has become higher than the Union average.

The slight rise in Denmark and the fall in the United Kingdom were accompanied by slow rises in France, Ireland, Italy and Portugal and much steeper rises in Germany and Luxembourg - by over two percentage points between 1990 and 1993.

In terms of average deviation from the Union values, the social contribution ratios of the Member States followed the same pattern as total fiscal charges, the deviations falling in 1991 and 1992 only to rise sharply again in 1993. With mean deviations of 4.7 (1990), 4.6 (1991), 4.5 (1992) and 5.6 percentage points in 1993, the 1993 figures were above those for the overall ratio and in both 1990 and 1993 above the tax ratios.

Tax structures in the Member States continue to change in 1993

Alongside the structural income aspects of the two main groups, taxes and social contributions, changes in the structure of taxation are an important aspect of the various national income systems. The ESA standard classification divides taxes into four main groups: current taxes on income and wealth, taxes linked to production and imports excluding VAT, non-deductible VAT and capital taxes.

As in previous years, at Union level the tax structure (*Graphs 7-10, Table 3*) - with the exception of capital taxes - changed very little in 1993. The share accounted for by taxes on income and wealth was still approximately half, with a rise of 0.4 percentage points over the previous year's figures. Following a rise of 0.5 points since 1992, the share of taxes linked to production rose to a quarter of total taxes, whilst some 24% of tax revenues were derived from VAT, following a rise of around 0.3 percentage points over the previous year.

There were major changes in relative terms only in the case of capital taxes, with developments in Italy and France having an impact on the share of these taxes in the Union as a whole. The ratio of around 1% in 1991 rose in 1992 to almost two and a half times that figure, and then fell back in 1993 almost to the 1991 value, at 1.2%. Excluding these special effects, further details of which will be given below, the structure of taxation at Union level may be considered to be slightly more stable than it appears.

Compared with 1992, Denmark, France, Luxembourg and the Netherlands increased the structural share of **taxes on income and wealth** (*Graph 7, Table 3*) in 1993, while Italy and Ireland saw particularly steep rises of 3.1 and 2.7 percentage points respectively. The shares declined in Germany and Portugal, by 1.5 and 0.7 points respectively compared with the previous year's values.

Only in Denmark and Ireland was there a steady increase in the share of taxes on income and wealth between 1990 and 1993, with steady falls in Belgium and the United Kingdom. The trend towards declining structural shares was bucked in 1993 by Italy and Luxembourg.

Graph 7

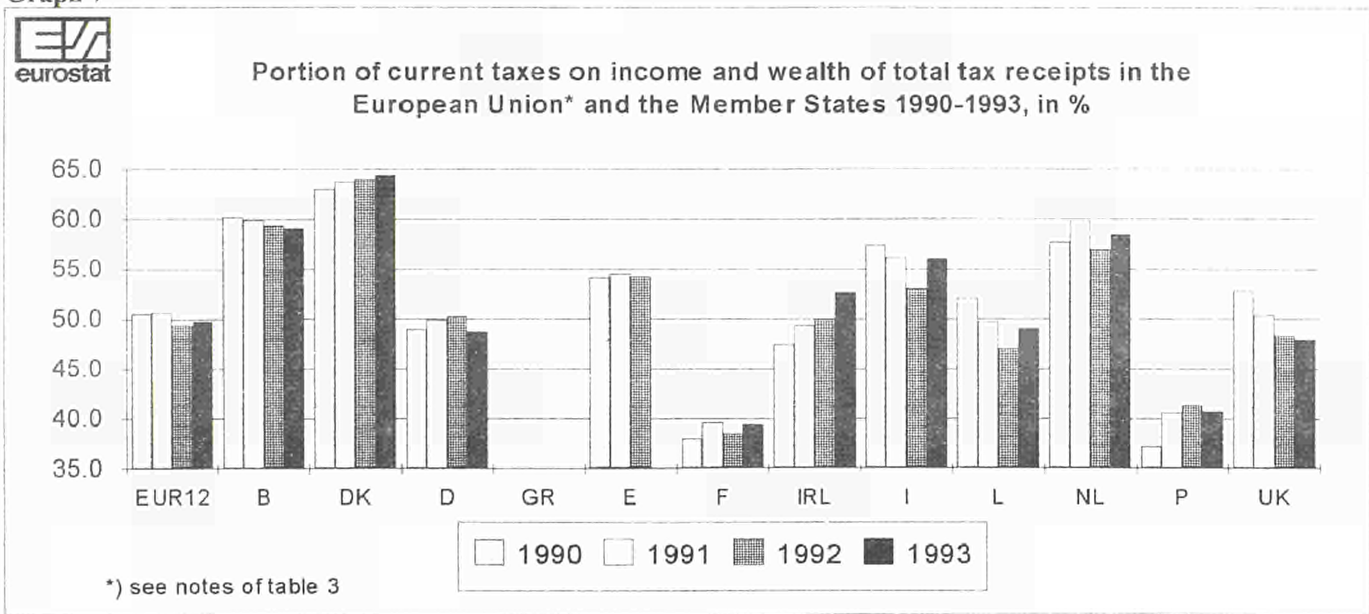


Table 3

Structure of tax receipts in the Member States of the European Union* 1990-1993, in %	current taxes on income and wealth				taxes linked to production and imports				VAT on products				capital taxes			
eurostat	1990	1991	1992	1993	1990	1991	1992	1993	1990	1991	1992	1993	1990	1991	1992	1993
EUR12	50.5	50.6	49.4	49.8	24.6	24.4	24.5	25.0	24.0	23.9	23.7	24.0	0.9	1.0	2.4	1.2
B	60.2	59.9	59.3	59.1	15.7	15.9	16.8	17.0	23.0	23.0	22.7	22.7	1.1	1.2	1.2	1.2
DK	63.0	63.7	64.0	64.4	18.0	17.7	15.5	15.5	18.4	18.0	19.9	19.5	0.6	0.6	0.6	0.6
D	49.0	49.9	50.2	48.7	25.0	24.7	24.8	24.2	25.5	25.0	24.6	26.6	0.5	0.4	0.4	0.4
GR	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
E	54.2	54.5	54.2	:	22.4	22.4	21.6	:	22.4	22.2	23.3	:	1.0	0.9	0.9	:
F	38.0	39.6	38.4	39.4	29.3	28.8	29.5	30.3	30.9	28.9	29.0	28.3	1.7	2.7	3.1	2.1
IRL	47.4	49.4	50.0	52.7	29.4	28.3	27.6	25.8	22.6	21.7	22.1	21.1	0.5	0.6	0.4	0.5
I	57.4	56.2	53.0	56.1	21.5	21.8	21.1	23.7	20.7	21.2	18.6	17.7	0.4	0.8	7.3	2.5
L	52.1	49.7	47.0	49.0	30.3	31.1	33.4	33.5	17.2	18.7	19.2	17.2	0.4	0.5	0.5	0.4
NL	57.7	59.8	57.0	58.4	17.2	16.5	18.9	19.1	24.2	22.8	23.2	21.6	0.8	0.8	0.9	0.9
P	37.2	40.6	41.4	40.7	34.2	33.4	31.6	33.0	28.0	25.2	26.7	26.0	0.7	0.8	0.3	0.3
UK	52.7	50.4	48.3	48.0	26.6	26.6	27.0	27.6	19.9	22.2	23.9	23.6	0.9	0.8	0.8	0.8

*) excl. Greece and Spain; excl. taxes levied for the European Union; figures for Germany from 1991 onwards incl. new Länder

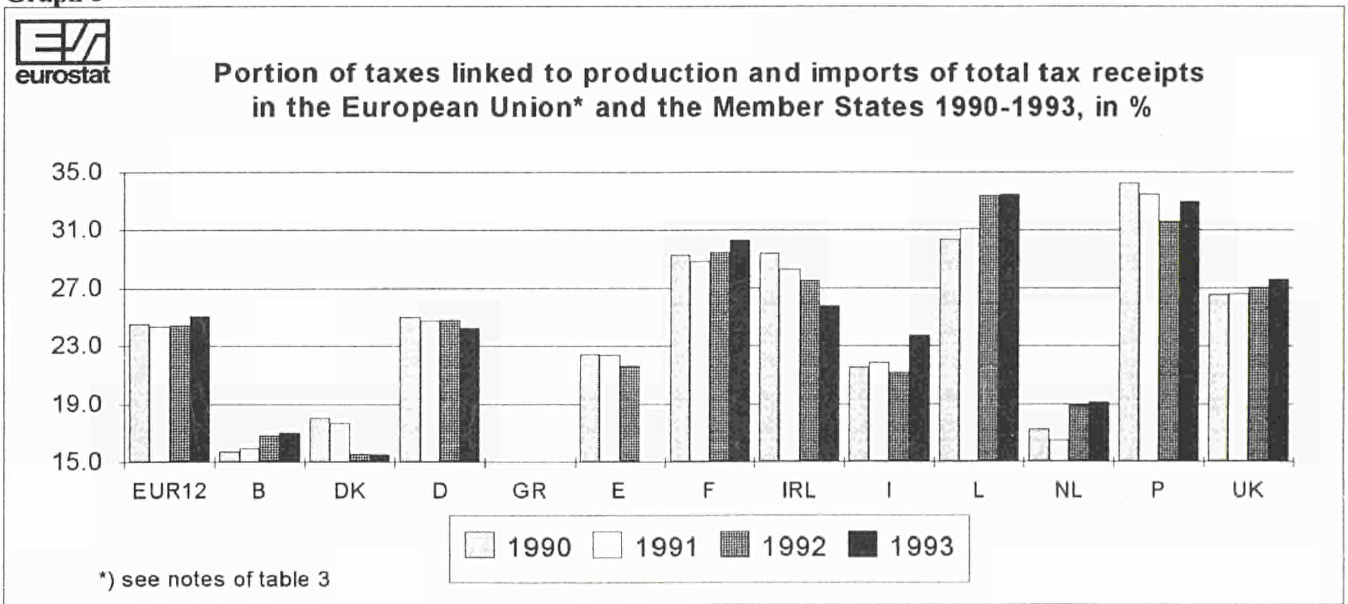
In 1993 as well, the share accounted for by taxes on income and wealth in France was more than 10 percentage points below the EU average, and following a slight fall, the value for Portugal in 1993 was again around 9 points below the Union average.

The following aspects may be said to characterise the shares of GDP accounted for by **taxes linked to production and imports** (*Graph 8, Table 3*):

- those countries which have comparatively low (high) percentages for taxes on income and wealth tend to have relatively high (low) ratios for taxes linked to production and imports;

- as regards movements, steadily increasing (decreasing) shares for taxes on income and wealth are often accompanied by falling (rising) shares for taxes linked to production and imports.

Graph 8

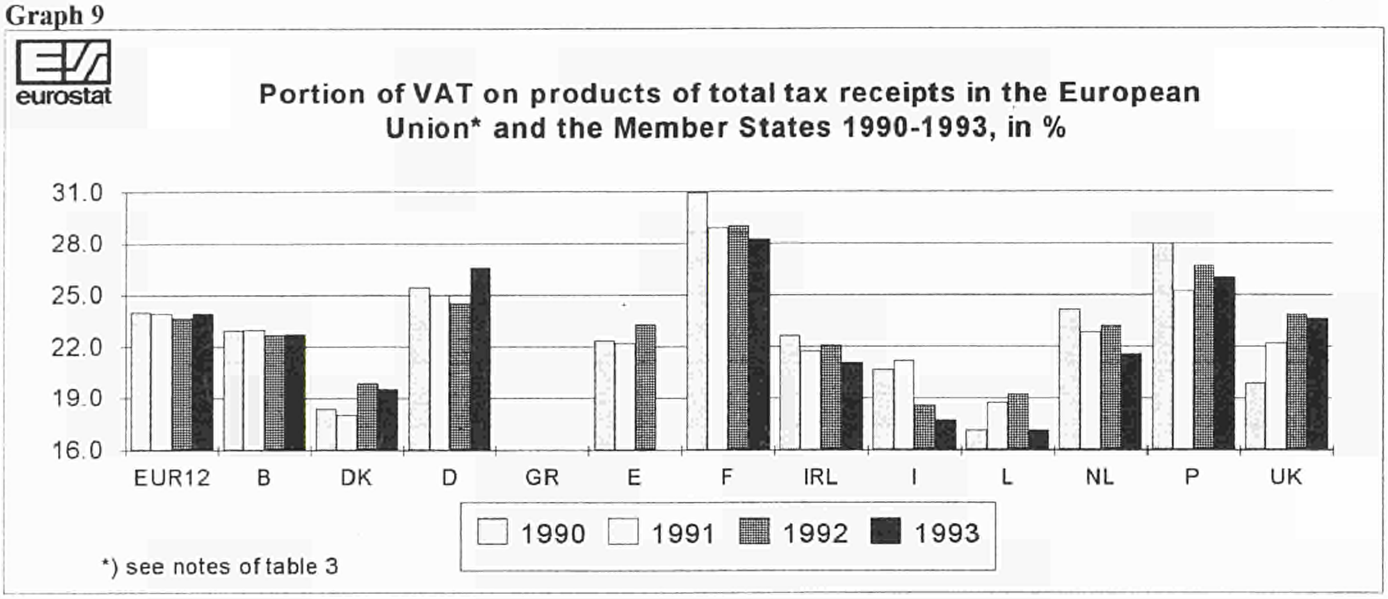


Portion of taxes linked to production and imports of total tax receipts in the European Union* and the Member States 1990-1993, in %

*) see notes of table 3

There appear to be no such cross effects in the case of the percentage of total tax receipts accounted for by **value added tax** (*Graph 9, Table 3*). There was, rather - particularly in 1993 - a general tendency for VAT to be declining in importance, expecially in France, Ireland, Italy, the Netherlands and Portugal. The only Member State in which VAT became more important in structural terms in 1993 than in 1992 was Germany, where the already above-average figure of 24.6% rose by 2 percentage points, to the second highest percentage for value added tax after France (28.3%), and alongside these two countries only Portugal, of all the countries covered, had a percentage share of VAT above the Union average.

Graph 9



Finally, as regards levels and movements in **capital taxes** (*Graph 10, Table 3*), the figures for Italy stood out from all the rest in 1992 and 1993, reflecting changes in the taxation system, with one-off amnesty rulings also playing a part. Apart from Italy, France was the only country where capital taxes accounted for an above-average share of total tax receipts. In the other Member States, the percentages ranged from under 0.5 to just over 1%.

Graph 10