

Principles of PIT in the European Union

Personal Income Tax in the European Union

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First premise: PIT systems in EU are very heterogeneous

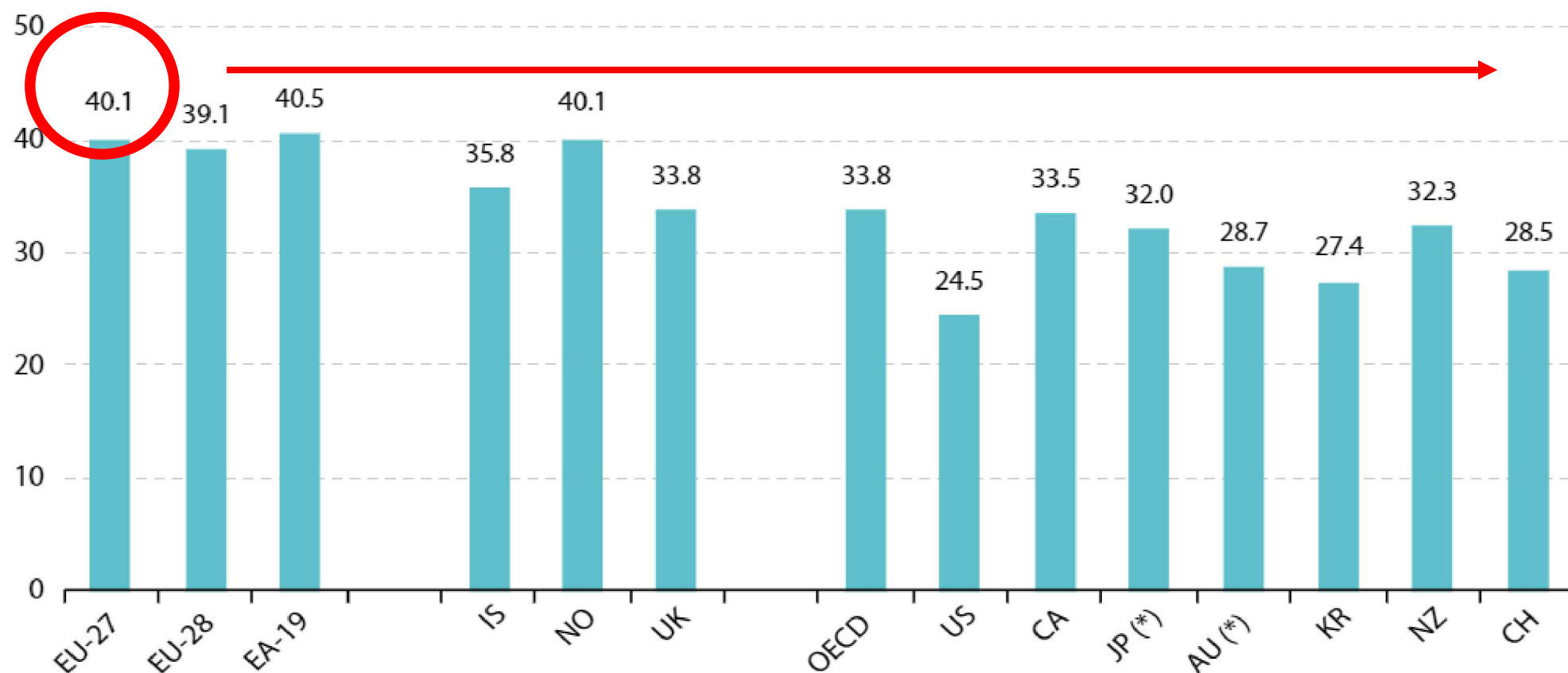
- **Tax harmonization in the EU has focused on indirect taxation**
- **Progress in direct taxation mostly in company taxation**
- **In PIT through “negative harmonization” – ECJ**
 - **national lottery exemptions must be applied to equivalent of other Member States**
 - **tax incentives for donations to specific activities have to be applied to equivalent activities of other Member States.**

First premise: PIT systems in EU are very heterogeneous

- **Economic traditions and backgrounds of EU countries vary significantly, specially after the expansion to the East.**
- **Two main group of Tax systems: Flat taxes and dual taxes.**
 - **Flat taxes – Eastern Countries**
 - **Dual Taxes – Nordic countries, hybrid systems,**

Starting point: higher tax revenue as % GDP

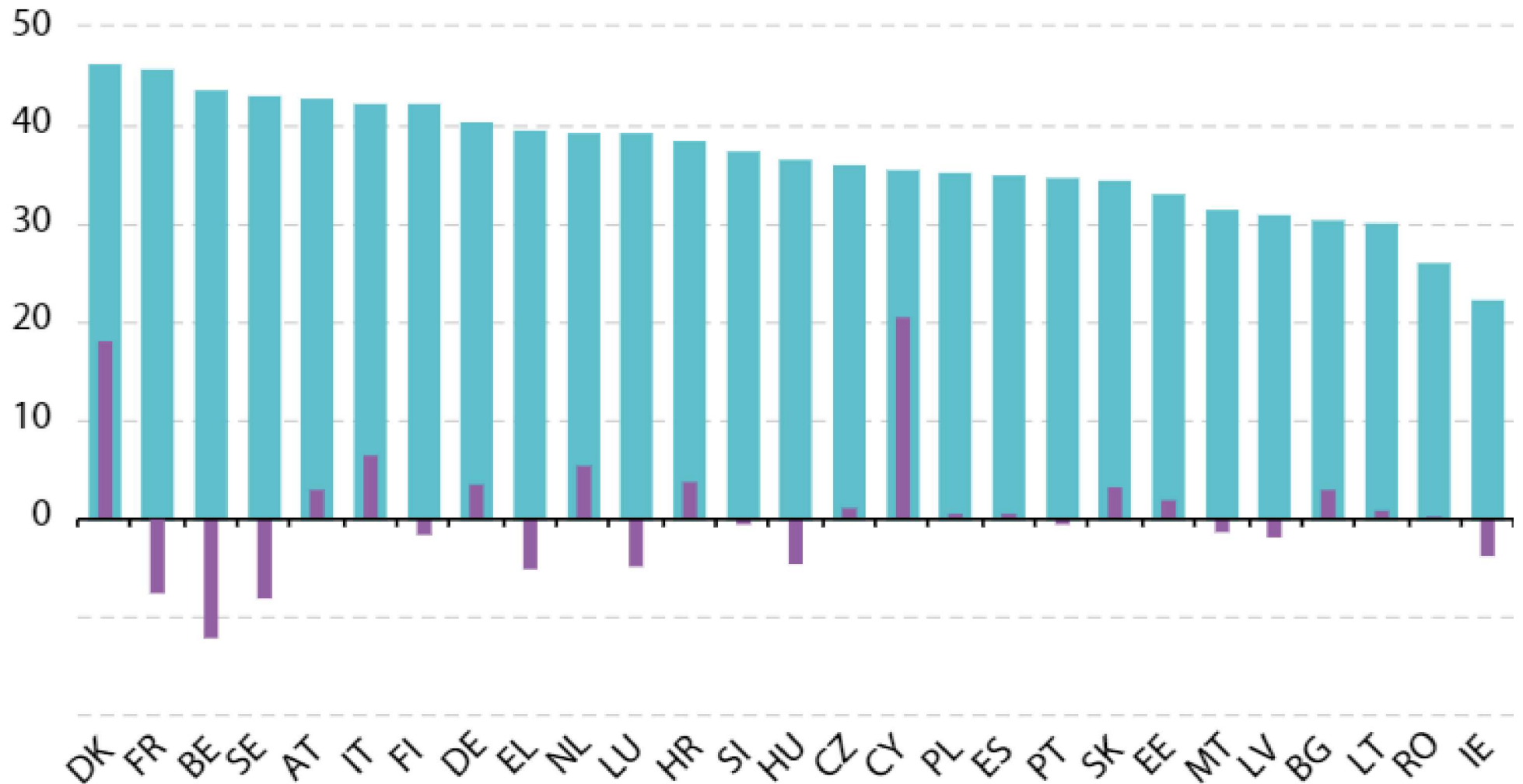
Graph 1: Tax revenue (including compulsory actual social contributions), EU and selected countries, 2019 (% of GDP)



Source: Taxation Trends in the European Union 2021

Great differences among countries

Tax revenue as % of GDP



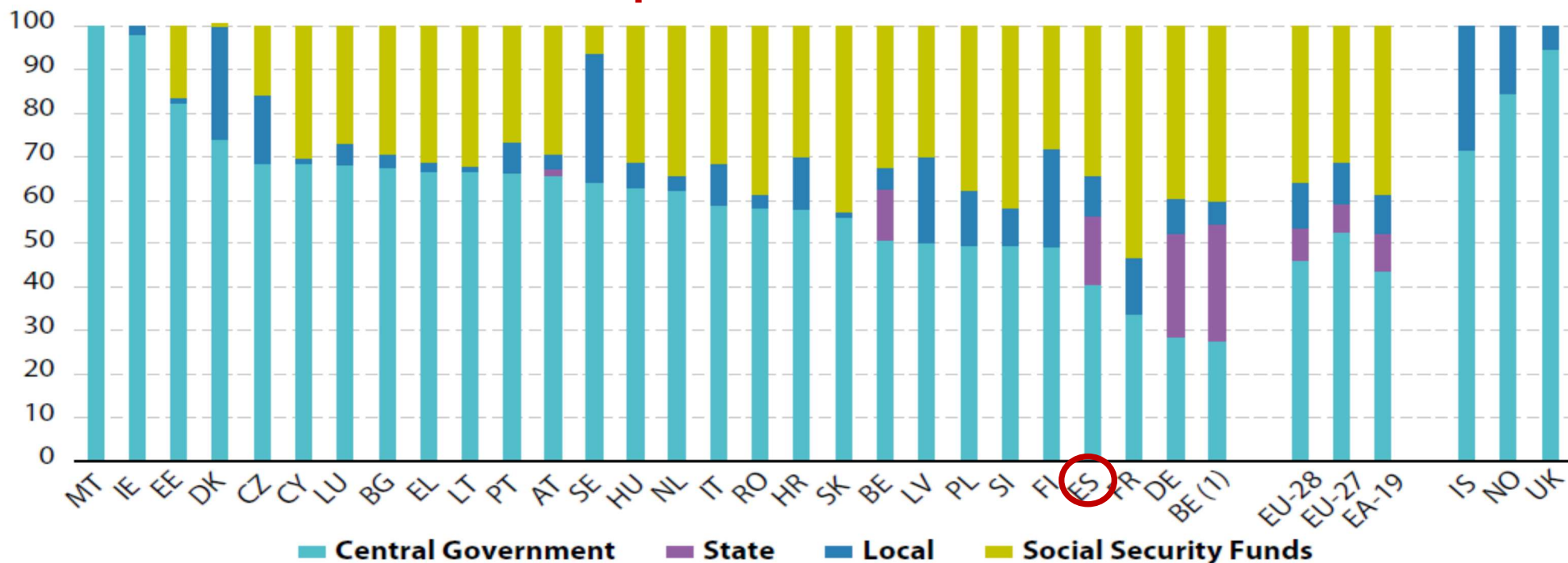
Source: Taxation Trends in the European Union 2021

Decentralized structure of tax revenue in EU

Graph 4: Revenue structure by level of government, 2019

(% of total taxes)

Spain is one of the most decentralized countries in EU



(1) Alternative allocation of tax revenue by subsector according to 'ultimately received revenue'.

NB: In national accounts following the European system of accounts (ESA) 2010, the social security funds subsector is not distinguished for Ireland, Malta, Norway or the United Kingdom.

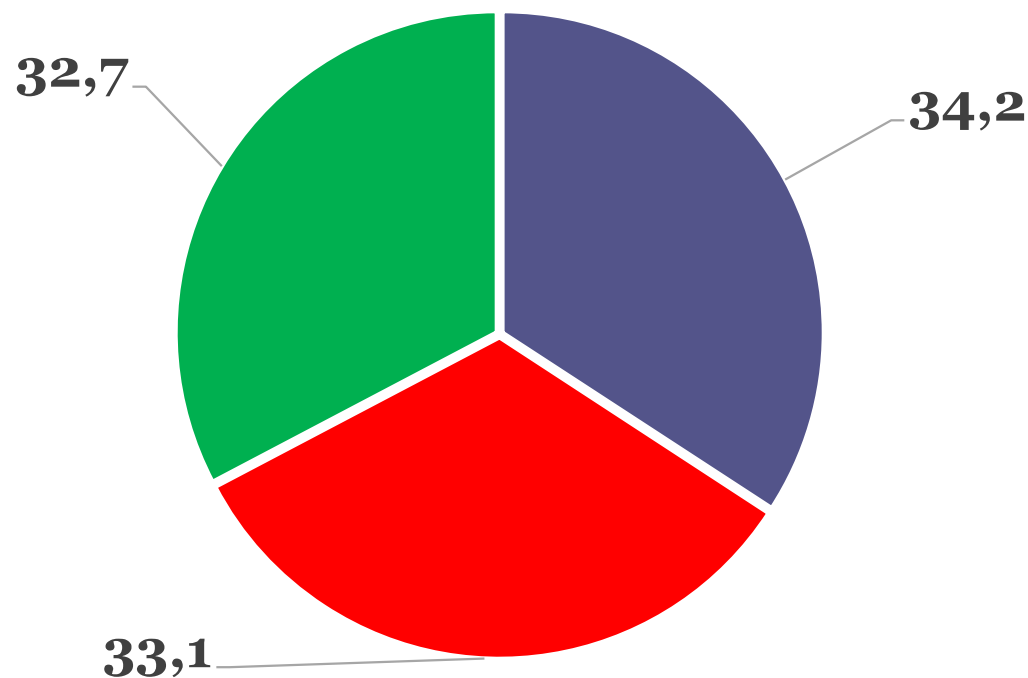
Source: Eurostat (online data code: gov_10a_taxag).

- Great differences from one Member State to another.
- Federal Member States or grant regions relevant degree of fiscal autonomy: **Belgium, Germany, Spain and Austria.**

Where does the public revenue come from?

EU-27 - *Tax Mix*

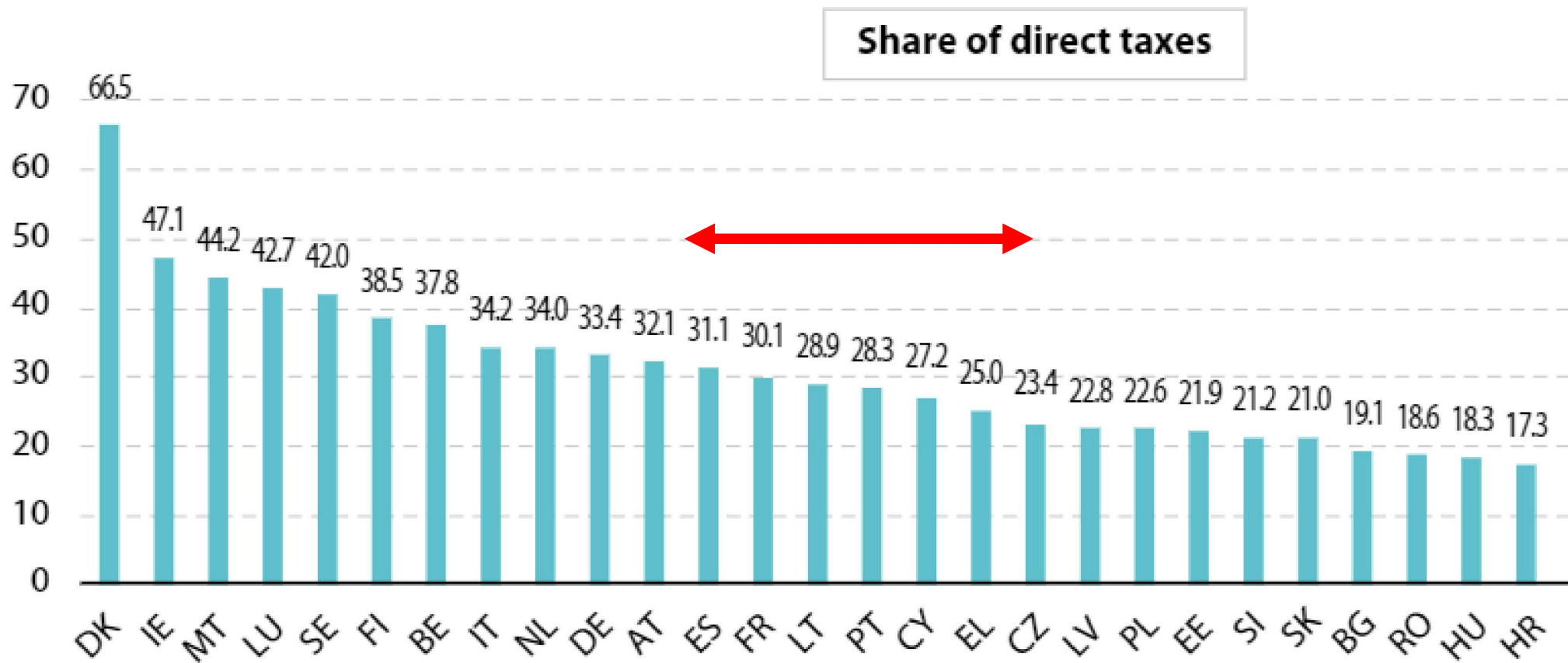
% of total revenue



■ Indirect taxes ■ Direct taxes ■ Social Contrib.

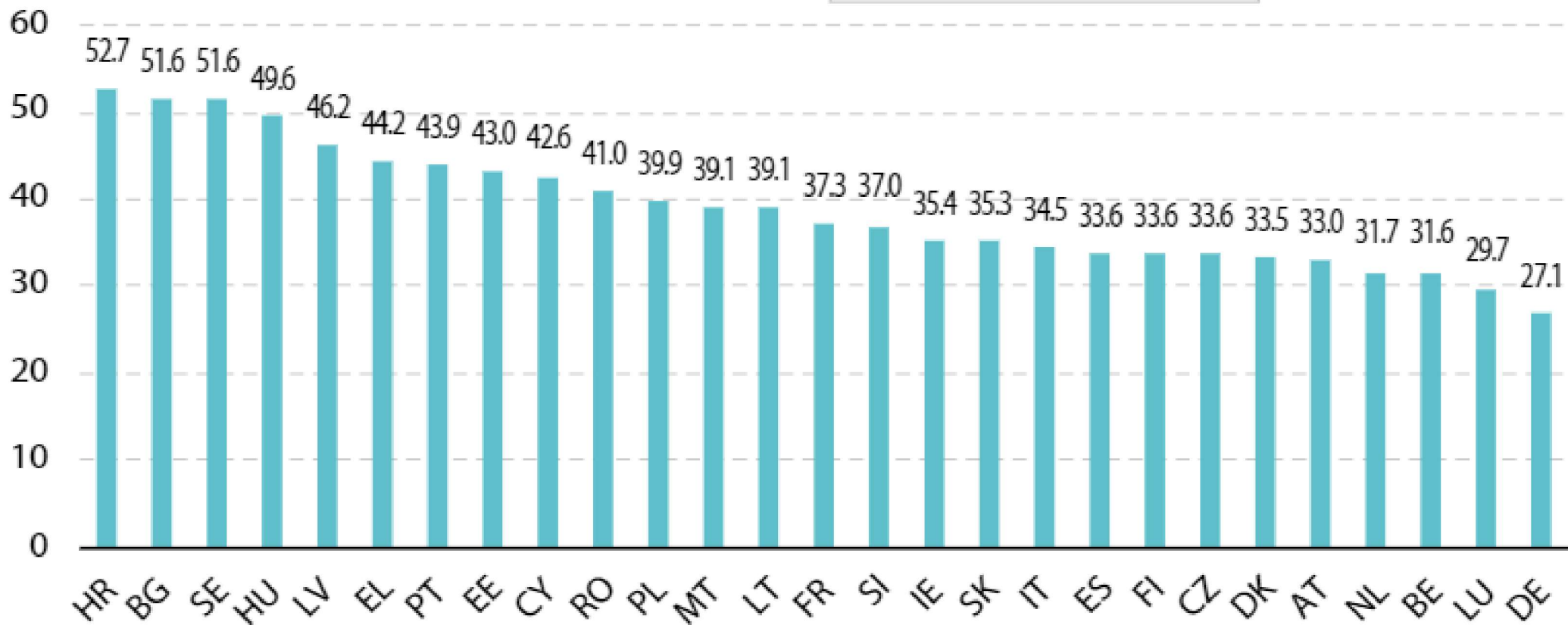
Source: Taxation Trends in the European Union

Western vs Eastern Countries



Western vs Eastern Countries

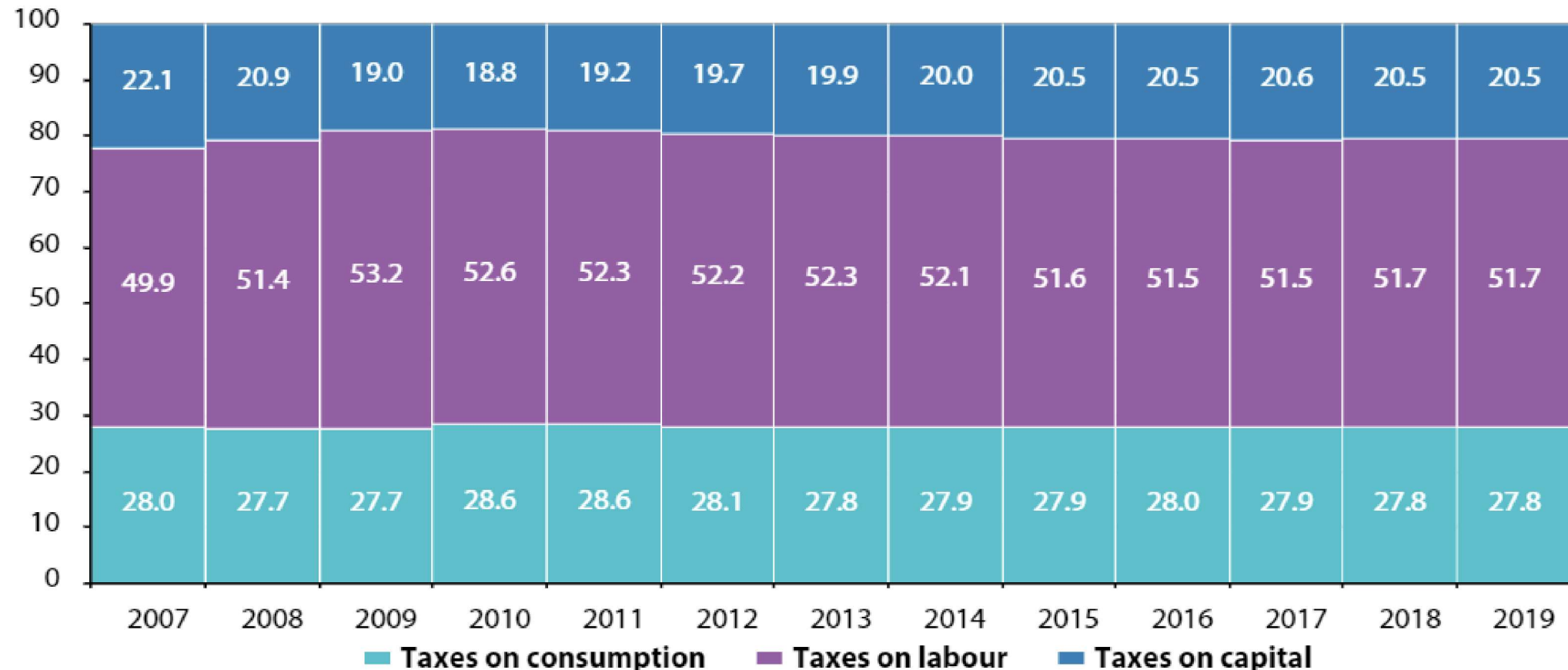
Share of indirect taxes



Capital vs Labour income

Graph 6: EU-27 tax revenue according to type of tax base, 2007–2019

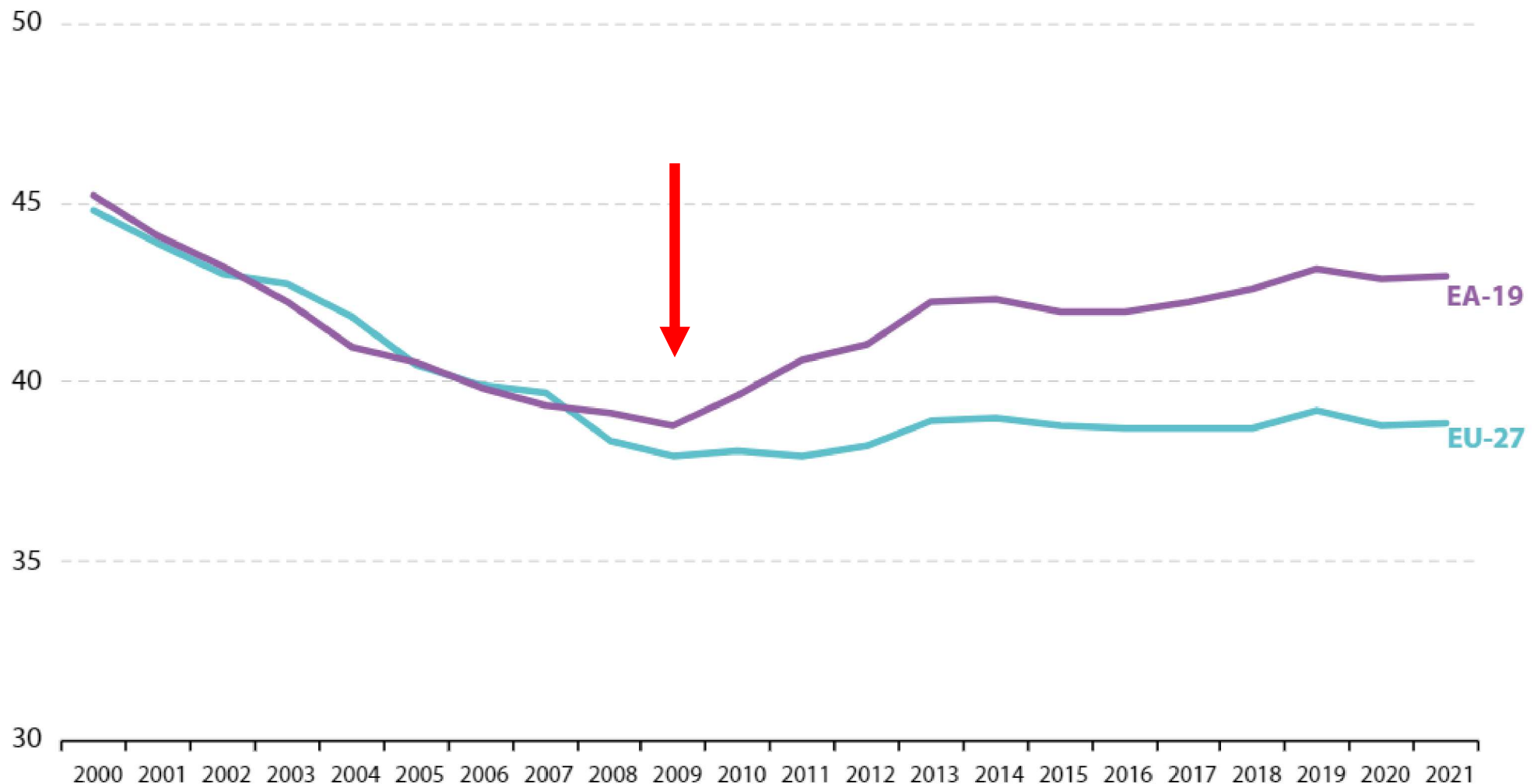
(% of total taxes)



Top rates have evolved in last years

Graph 11: Development of top personal income tax rate, 2000–2021

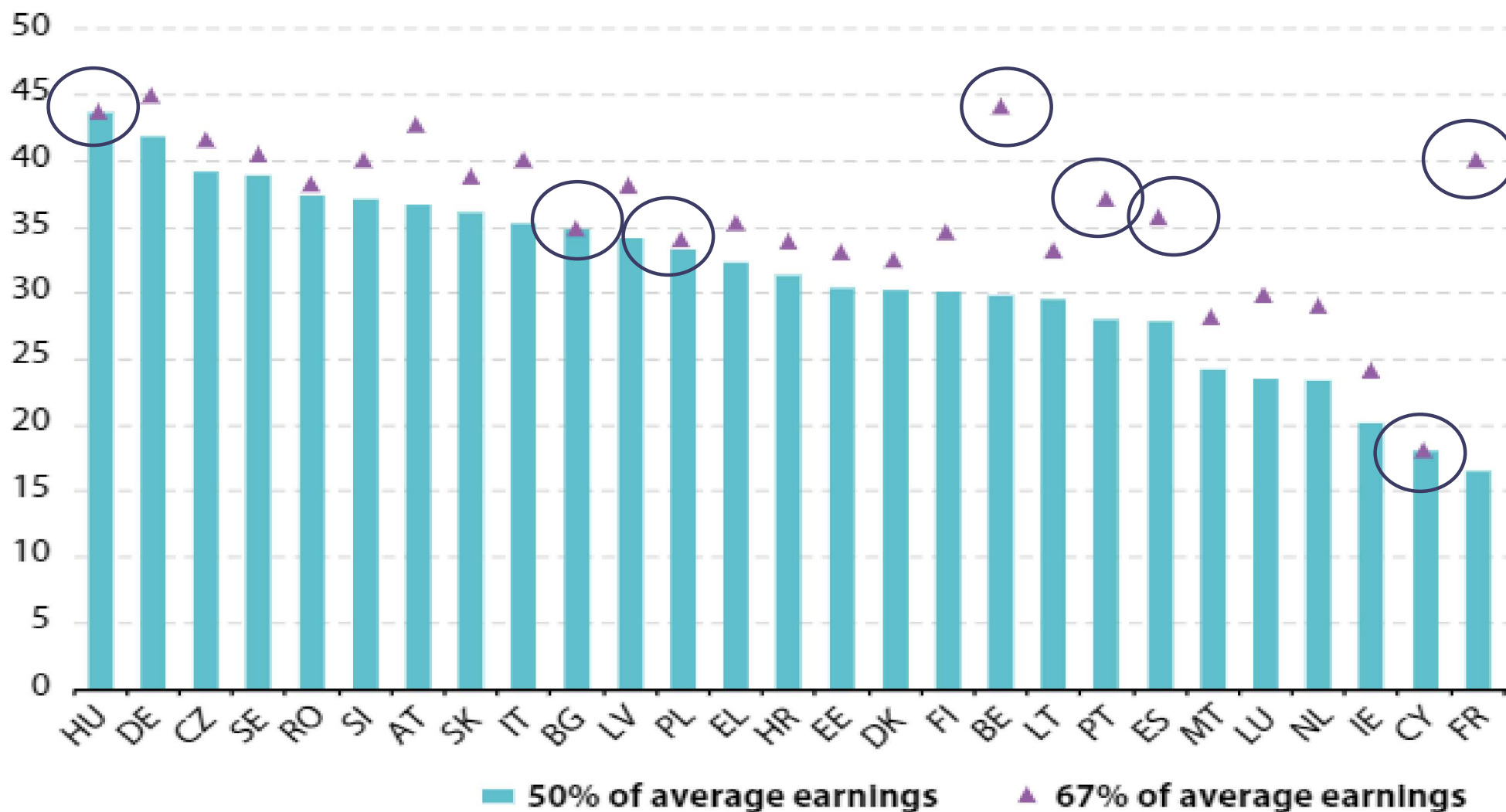
(%), simple averages



Sources: European Commission, DG Taxation and Customs Union, Taxes in Europe database and IBFD data.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Belgium	53.7	53.7	53.8	53.8	53.7	53.2	53.2	53.2	53.1	53.1	53.1
Bulgaria	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Czechia	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	23.0
Denmark	55.4	55.4	55.6	55.6	55.8	55.8	55.8	55.9	55.9	55.9	55.9
Germany	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5
Estonia	21.0	21.0	21.0	21.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Ireland	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	48.0	40.0	40.0
Greece	49.0	49.0	46.0	46.0	48.0	48.0	55.0	55.0	55.0	54.0	54.0
Spain	45.0	52.0	52.0	52.0	45.0	45.0	43.5	43.5	43.5	43.5	45.5
France	46.6	50.3	50.3	50.3	50.2	50.2	50.2	51.5	51.5	51.5	51.5
Croatia	47.2	47.2	47.2	47.2	47.2	47.2	42.5	42.5	42.5	42.5	35.4
Italy	47.3	47.3	47.3	47.8	48.8	48.8	47.2	47.2	47.2	47.2	47.2
Cyprus	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Latvia	25.0	25.0	24.0	24.0	23.0	23.0	23.0	31.4	31.4	31.4	31.0
Lithuania	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	27.0	32.0	32.0
Luxembourg	42.1	41.3	43.6	43.6	43.6	43.6	45.8	45.8	45.8	45.8	45.8
Hungary	20.3	20.3	16.0	16.0	16.0	15.0	15.0	15.0	15.0	15.0	15.0
Malta	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Netherlands	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	51.8	49.5	49.5
Austria	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Poland	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0	32.0
Portugal	50.0	49.0	56.5	56.5	56.5	56.5	56.2	53.0	53.0	53.0	53.0
Romania	16.0	16.0	16.0	16.0	16.0	16.0	16.0	10.0	10.0	10.0	10.0
Slovenia	41.0	41.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Slovakia	19.0	19.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Finland	49.2	49.0	51.1	51.5	51.6	51.6	51.4	51.1	51.1	51.1	51.3
Sweden	56.6	56.6	56.7	56.9	57.0	57.1	57.1	57.1	57.2	52.3	52.3

Tax wedge of worker with 50/67% average income (% of labour cost)



Source: European Commission, DG Economic and Financial Affairs, Tax and Benefits database.

Goal of dual taxes

Nielsen (1980) Vs. Traditional synthetic and global PIT

- Capital income at proportional rate
- Capital income PIT = lower PIT tranche = CIT
- Neutrality of the investments
- Vs. Double Economic Taxation
- Vs. disincentive to realization of capital gains
- First countries: Denmark, Finland, Sweden, Norway

The expansion of “flat taxes” in EU

- Bulgaria 10% (5% div, 8% int)
- Czech Republic 15% (+ 7% solidarity over 4x average)
- Estonia 20%
- Hungary 15%
- Lithuania : 15%
- Romania: 10% (div. 5%)

Dual taxes for capital income (int,div)

- Austria (27,5%) Vs. Up to 50%
- Belgium (30%) Vs. Up to 50%
- Greece 15% vs. up to 45%.
- Netherlands 25% vs up to 51,95%
- Portugal 28% vs. Up to 53%
- Slovenia 25% vs. Up to 50%
- Spain 19-27% vs, Up to 47%

In the middle....

- Croatia 24/36% (from 28,000 € aprox.) - *municip.
- Ireland 20-40% (divid 20%, int 33%)
- Latvia 20/23/31,5% (previous flat tax 23%) ,
exempt div, int 20%
- Poland 18/32% (int, div. 19%)
- Slovak Republic 19/25% (previous flat tax 19%)

Nordic countries - high municipalities' flat income taxes

- Denmark 27% Vs. 11% + 15% (over 60.000 €) + munip (25%*) - Máx. 52,06%
- Finland 30-34% vs up to 31% + (16-22% municip*)
- Sweden 30% vs. Up to 25% + 30% (municipip *)

Germany - int/div 26.375%, high child aid

Annual taxable income (EUR)	Marginal rate (%)	Tax payable (EUR)
Up to 9,000	0	0
9,001 – 13,996	14.00 – 23.97	0 – 949
13,997 – 54,949	23.97 – 42	949 – 14,457
54,950 – 260,532	42	14,457 – 100,802
Over 260,532	45	100,802

Annual taxable income (EUR)	Marginal rate (%)	Tax payable (EUR)
Up to 18,000	0	0
18,001 – 27,992	14.00 – 23.97	0 – 1,898
27,993 – 109,898	23.97 – 42	1,898 – 28,914
109,899 – 521,064	42	28,914 – 201,604
Over 521,064	45	201,604

France: *Le quotient familial*

Status	Coefficient (number of <i>parts</i>)
Single, divorced or widowed persons without dependants	1
Single, divorced or widowed persons with 1 child over 18, invalids and war veterans	1.5
Married persons without children, single or divorced persons with 1 child	2
Married or widowed persons with 1 child, single or divorced persons with 2 children	2.5
Married or widowed persons with 2 children	3
Single or divorced persons with 3 children	3.5
Married or widowed persons with 3 children	4
Single or divorced persons with 4 children	4.5
Married or widowed persons with 4 children	5

Taxable income per <i>part</i> (EUR)			Rate (%)
Up to		9,807	0
9,808	–	27,086	14
27,087	–	72,617	30
72,618	–	153,783	41
Over		153,784	45

Value of I/C (EUR)			Gross tax
Up to		9,807	0
9,808	–	27,086	$(I \times 0.14) - (1,372.98 \times C)$
27,087	–	72,617	$(I \times 0.30) - (5,706.74 \times C)$
72,618	–	153,783	$(I \times 0.41) - (13,694.61 \times C)$
Over		153,784	$(I \times 0.45) - (19,845.93 \times C)$

Example:

- A married taxpayer with an income of EUR 60,000 and a family coefficient of 3 (two children) has an I/C value of EUR 20,000

The formula indicated in the second row of the above table must be applied.

The tax is thus computed in the following manner:
 $(60,000 \times 0.14) - (1,372.98 \times 3) = \text{EUR } 4,281.06.$

Is there Tax Competition in PIT in EU?

- Kieckebeld (2006)

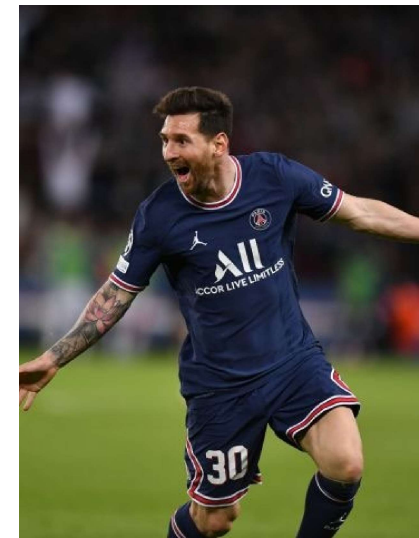
“Improving the relative competitive position of one country vis -à-vis other countries by reducing the tax burden on business and individuals in order to retain, gain or regain mobile economic activities and the corresponding tax base, whether at the expense of other countries or otherwise”.

Tax Competition - Main elements

- “of one country vis -à-vis other countries”
 - It can appear at all levels of government / jurisdictions
 - There is also tax competition among regions and municipalities if they have tax power.
- “reducing the tax burden”
 - There are multiple forms of competition (legal framework, best services, infrastructure investment,)
 - i.e. Delaware

Tax Competition in PIT

- “the tax burden on business and individuals”
 - i.e. Impatriates regimes
 - Spanish football regime
 - Italian 70/90% exemption + flat rate foreign income
 - France 50% exemption foreign source



Main conclusions

- PIT models of EU countries are quite heterogeneous, anyway we can classify them in two big groups: flat taxes and dual taxes.
 - Flat taxes have been implemented in Eastern Countries with low tax revenue/GDP ratio
 - In fact, tax revenues from PIT in these countries are the lowest of the EU, being indirect taxes their main revenue source.
 - Dual taxes apply different tax rates to labour income and to capital income (int, divid, royalties)

Main conclusions

- We have observed three main models of dual taxation.
 - Classical dual taxation models. Progressive tax scale with several tranches (bigger economies)
 - Nordic dual taxation models with high flat municipal taxes
 - Hybrid systems. With just a few tranches (2-3). Some of them with previous flat taxes

Main conclusions

- There is little room for Tax competition in PIT
 - Common citizens are not attracted by flat or lower taxes (low mobility of tax bases, little savings)
 - High-skill workers (sportmen) might be attracted by impatriates regimes, especially if they receive benefits for their income abroad
 - The problem of these systems is the comparative injustice for national high income workers.

There is an incentive to frequent changes of residence

