АКТУАЛНО
CURRENT

HARMONIZATION OF TAX SYSTEMS IN THE EUROPEAN UNION

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Abstract: *Throughout history, tax systems have differed from one another in many ways, including their historical, economic, and legal foundations. As a result, fiscal harmonization has emerged as an alternative approach to fiscal federalization of countries as compared to their national regulation. In countries with economic and fiscal disparities, as well as at the international level, fiscal differences have significant impacts on issues such as international trade, currency exchange rates, migration of people and capital, etc.*
Even though all economies of the EU member states are part of an economic integration, which is all expressed in the free movement of goods, services, capital and labour, as main economic principles and values of the European Union. Article 93 of the Treaty of Rome defines the ability for member states to have complete independence in the free development of tax policies, including the application of special types of taxes like direct and indirect taxes, despite being subject to certain tax harmonization measures undertaken by EU member states. The article states that: "The Council shall, acting unanimously on a proposal from the Commission and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market".
Keywords: *Tax systems, harmonization, taxes, fees, directives, EU*

INTRODUCTION

The tax system is part of the financial system, and further, of the economic system. (Jellcic, 1973)

When it comes to the harmonization of tax systems, different countries often hold divergent views on harmonization of financial instruments in general, and taxes in particular. The practice so far has shown that the issue of tax harmonization is a complex task that is highly sensitive politically and marked by many differences among nations.

HARMONIZATION OF TAX SYSTEMS IN THE EUROPEAN UNION

The history of tax harmonization began after the Second World War, that is, after the establishment of the European Economic Community, taking up speed in the eighties and early nineties of the last century when many political changes began in the world, notably, the fall of Berlin Wall and the unification of the Two Germanies, dissolution of the USSR, SFRY and other socialist countries, transition and creation of CEFTA[1] and WTO[2].

Tax systems differ significantly across countries, leading to considerable fiscal disparities between them. Therefore, fiscal harmonization presents an alternative approach to fiscal federalism impacting international trade, exchange rates, migration of people and capital, and other related areas.

The fundamental aspect of national sovereignty for any country is the right to levy and collect taxes. A certain level of budgetary revenue is always necessary for the proper functioning of state administration and effective implementation of its policy. Taxation and fiscal policy are frequently employed to shape and influence fundamental economic variables (Hitiris, 2003):

- Establishing rules for economic behavior that mostly refer to approval, prohibition, competition, taxation, subsidies, corporate governance, dispute resolution, and other related areas, etc.
- Achieving and maintaining macroeconomic and political stability,
- Impact on economic stabilization and counteracting cyclical disturbances,
- Impact on the distribution of resources,
- Management of structure and volume of employed resources,
- Reduction and elimination of fiscal evasion and fiscal fraud,
- Motivating and maintaining savings, etc. (Hitiris, 2003)

As such, tax policy plays a significant role in shaping the level and mode of operation of the goods and services market, in order to finance the chosen level of public spending. Tax systems should ideally be both fair and efficient, helping to regulate and balance the budget during the production cycle while minimizing their impact on private sector business decisions and be in alignment with international tax base standards. The process of changing tax policy in developed democratic societies is typically slow and challenging due to the complexity of taxes and budget changes, which are often long-term and intricate.

The primary objective of tax harmonization is to achieve fiscal neutrality, which is defined as equal treatment of domestic and imported products. The need for tax harmonization first emerged in the European Union. (Peci, 2017)

Tax harmonization is built upon two fundamental objectives (Jan, 2003):

- Fair competition among members, including elimination of fiscal barriers;
- Acceleration of market integration and unification process.

Imposing taxes in the European Union is based on several principles:

- The principle of national competence – the fiscal policy is a competence of individual member states, if there is no competence conferred to the EU based on a previously reached agreement;
- The principle of subsidiarity – actions can be undertaken at the EU level, only if the goals for tax harmonization cannot be achieved at the national level and achievement at the EU level gives better results;
- The principle of unanimity – determines that all issues in the field of taxation can only be adopted unanimously, during the decision-making process in the Council of Ministers.

HARMONIZATION OF TAXES AND TAX SYSTEMS

The economies of EU member states are highly integrated as part of an economic union, with the free movement of goods, services, capital, and labor across national borders. Each member state retains full autonomy to develop its tax policies, implement independent tax measures, and pursue tax harmonization with other EU states.

The agreement on establishment of the European Union has set the legal norms on taxes which have not changed until today. According to them, each EU member state has the right to maintain its own tax system, even to introduce new taxation forms, but at the same time the basic parts (tax rate, tax base, etc.) should be aligned with decisions of EU institutions. (Kesner-Shkreb, 2007) The

European Union has adopted several directives that refer to harmonization of individual types of taxes. These directives have achieved a minimum harmonization of tax systems, respectively, partial harmonization of direct taxes and the greatest success was achieved with the harmonization of indirect taxes.

Directives of the European Union (directive 67/228/eec)[3] represent essential instruments for harmonization of tax system. They provide guidance to member states on the development and reform of their tax systems. Moreover, this Directives also apply to countries that are candidates for EU membership. The principle of subsidiarity is a guiding principle of the European Union that asserts that decisions should be made by the EU institutions only if they are better equipped than individual member states to achieve certain results and objectives. Otherwise, each country should take decisions, because there are huge differences in the level of economic and social development of countries, which poses a major obstacle for harmonization of tax systems.

Considering that 26 member states have 26 different national tax systems, it is very difficult to achieve full harmonization of systems. The recent enlargement of the Union has further increased the differences in tax systems of the Union, so that despite the introduction of common economic and monetary market, there is still no real common tax policy in the EU. In addition, the decision-making procedure for harmonization of tax systems in the EU still remains complex, as a consensus is required to take a decision on taxation at the EU level. Respectively, following consultations with the European Parliament and Economic and Social Council, the Commission forwards the proposal to the Council, which unanimously decides on the proposals related to taxation. Since such a system appears to be blocking the decision-making, in order to provide for facilitate decision-making, the Commission proposed application of close cooperation procedure. This would enable the Commission to cooperate with a group of eight member states when taking decisions in the field of taxation. These decisions will be presented to the Council and if accepted, will be considered as qualified majority decisions. In such a scenario, member states would have an incentive to implement the recommendations and decisions aimed at eliminating tax competition, without being restricted by legal regulations. The legal basis for harmonization of indirect taxes is defined in Articles 90 to Article 93 of the EU Treaty. They prohibit tax discrimination that would directly or indirectly affect national products, to the detriment of products from other member states. For these reasons, the EU advocates for the harmonization of sales tax, excise duty, and other indirect taxes.

The EU Treaty does not mention direct taxes, what poses significant obstacle for their harmonization. The European Union rarely focuses on the study of personal income tax for individuals, and when it does, it is primarily to promote equality in working conditions across all member countries. The EU has two primary goals in the area of corporate income tax: 1) to prevent harmful tax competition between member states; and 2) to enable the free movement of capital. (Atanasovski, 2004)

Despite significant efforts, the tax systems of EU member states have not yet achieved full harmonization. When referring to the harmonization of tax systems, it can be either complete, involving identical tax base and tax rate, or partial, which includes establishing minimum or maximum rates and eliminating double taxation, etc. An analysis of the tax systems of these countries reveals that there are no two countries without different structures of tax revenues, and there are always differences in the number of taxes, reliefs, exemptions, and tax rate levels.

In recent years, tax system reforms in EU member states have primarily focused on shifting from direct taxes to consumption taxation. This has been achieved mainly by expanding the tax base for consumption taxes and reducing tax exemptions. (Atanasovski, 2004)

HARMONIZATION OF INDIRECT TAXES IN THE EU

Article 93 of the Treaty of Rome provides the basis for harmonization of indirect taxes. It reads:

"The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market".

Harmonization of regulations and directives in the field of indirect taxes is necessary in order to create a single market, and to remove barriers to the free movement of goods, people, services and capital. To this end, the European Commission established a working group to explore the possibilities for harmonizing indirect taxes within the then European Economic Community. The group consisted of three subgroups, each tasked with implementing and harmonizing a general consumption tax that would be the only tax applicable once "borders between member states are removed." In 1963, the working group completed its work and presented the ABC report. In 1960, the Commission also established a Fiscal and Financial Committee to assess the extent to which existing sales tax systems in member states hindered the functioning of a single internal market. This committee's report, as well as the ABC report, reached identical conclusions: member states should abandon their existing sales tax system and replace them with a value added tax (VAT) system.

HARMONIZATION OF VALUE ADDED TAX

The Value Added Tax (VAT) is an indirect tax that is ultimately borne by the final consumer, not creating a tax burden for businesses. Harmonization of Value Added Tax has largely been achieved within the European Union, with detailed principles on the use of this tax form specified in the Sixth Council Directive (EU VAT model). (Ristic, 2012) This tax is applied at each stage of the sales cycle, calculated by the taxpayer based on the value added at each stage. The value added is the difference between the output value and input value, representing the value that a manufacturer, service provider, wholesaler or retailer adds to raw materials and inputs before the final product or service is sold. Value added tax offers several advantages such as greater transparency, efficiency in combating tax evasion, neutrality in foreign trade, opportunities to tax services, etc. EU member states are allowed to apply one or two reduced rates, typically up to 5% for certain goods and services.[4]

There are two methods for calculating the Value Added Tax: the addition method and the subtraction method. The direct addition method calculates the Value Added Tax by summation of all elements of valued added (i.e., wages, profit, interest, and rent). In the direct subtraction method, a business calculates the value of all taxable sales during a reporting period, subtracts the sum of all taxable purchases and applies the VAT rate to the difference, i.e, the value added is taxed. In addition to the direct subtraction method, there is also an intermediate subtraction method and an indirect subtraction method. In the intermediate subtraction method, the total gross value of purchases (including tax) is subtracted from the total value of sales (including tax), and tax is applied to the difference between them. In the indirect subtraction method, which is also called the invoice method, input tax (on purchases) is subtracted from sales tax in each tax period. This VAT method is applied in all OECD countries[5], which enables detection of fiscal evasion and avoidance of cumulative taxation of investment goods.

The EU sales tax harmonization process, where the best results have been achieved so far, was conducted in two phases. In the first phase, which began in 1967, the Council of the European Community adopted the First Directive (67/227/EEC)[6] which stated that "the main objective of the Treaty is to establish a common market within which there is healthy competition and whose characteristics are similar to those of a domestic market." To achieve this goal, it is necessary that the member states first adopt legal regulations in the field of corporate tax.

The second phase of VAT harmonization involves measures aimed at eliminating fiscal control at borders between member states. The European Community's objective was to establish a single

internal market by the end of 1992. To achieve this, in 1985, the Commission issued a "White Paper" outlining a plan to remove physical, technical and tax barriers at borders between EU member states. To address this issue, a proposal has been made to introduce a unified mechanism at the EU level for commercial transactions among member states. This mechanism would allow the tax collected in the exporting country to be deducted as a tax credit in the importing country. By implementing this mechanism, the principle of goods' destination, which is commonly applied in international exchanges, would no longer be applicable.

A certain transitional period of time is required to transition the tax system from the destination principle to the country of origin principle (also known as the principle of origin). For these reasons, the Council adopted three directives in 1991 and 1992:

- Directive on the abolition of fiscal frontiers – (91/680/EEC)[7] marked a significant change in the Sixth Directive regarding value added tax on "intra-Community transactions". A transitional period from January 1, 1993 to December 31, 1996, was introduced to maintain the destination principle, but with the removal of tax barriers at the borders between member states. Tax returns were filed with the Local Tax Administration instead of the Customs Directorate. After the transitional period, the Value Added System was supposed to change to a comprehensive system based on the principle of the origin of goods. This meant that purchases would be taxed in the member states where they are made, with the right to deduct the tax paid in the country of origin of the goods. Member states would offset the tax credit between them with a clearing mechanism based on a macroeconomic approach. However, the Council did not take any specific measures to implement this transitional period until the end of planned deadline, which was extended until the end of 1996. The transition period was deemed too complicated, as it required the application of 25 different rules to determine the country in which the transactions should be taxed. The new value added tax system should be as simple as possible and ensure equal treatment of all transactions in the EU internal market. The Commission proposed the only place of taxation should be where the taxpayer is registered, with the tax levied in the member state where taxpayer is registered, and the right to deduct the tax paid on input realized only in that country. However, implementation of this system requires harmonization not only of tax rates, but also of other value added tax principles, such as the right of deduction, tax exemption, special principles, etc.
- Directive on the simplification of the procedure in the probation period (92/111/EEC)[8] aimed to simplify and facilitate the determination and collection of value added tax during the transitional period.
- Directive on the approximation of the Value Added Tax rates (92/77/EEC)[9] aims to align tax rates across member states, but not necessarily equalize them. This directive provides that during the transitional period, all member states must maintain a standard rate of at least 15%, while an increased rate is aliminated, Additionally, member states may apply one or at most, two reduced (preferential) rates of at least 5%, but only to certain products such as foodstuffs, water, medicines, medical equipment, books, transport services, cultural and sports services, social protection services, sales of agricultural products etc.

In early 1994, the Council adopted Directive 94/5/EC[10], which introduced special arrangements for the use of second-hand goods, works of art, antiques, and other such items. It should be noted that the harmonization of value added tax only sets the upper and lower limits ot the tax rates that member states can apply, but does not establish uniform tax rates for all member states.

CONCLUSION

Taxes are a means of collecting funds from individuals, firms and organizations, and are applied to various types of taxpayers in order to finance public goods and services. These mandatory and

irreversible monetary payments are imposed by th state on natural and legal persons, without direct compensation, for the purpose of providing public goods and achieving specific economic, social and other goals in the society.

Taxation is a rather complex economic, financial and social issue. It involves a range of different tax types, which are regulated by specific laws, rules and regulations that define their effectiveness, potential uncertainties and implementation without irregularities.

The tax policy must be fair and efficient in order to keep the budget in balance during a production cycle, to have as little influence as possible on business decisions in the private sector, and to some extent be in harmony with basic international tax standards. The process of changing tax policy in a democratic society is often slow and challenging. In other words, taxes and budget changes are both intricate and long-term processes.

Until now, despite great efforts, the tax systems of EU member states have not been fully harmonized.

In recent years, tax system reforms have primarily focused on shifting from direct taxes to consumption taxation. This is largely achieved through expanding the tax base for consumption taxes and narrowing tax exemptions and deductions.

Article 93 of the Treaty of Rome lays the foundation for harmonizing indirect taxes, stating that the Council adopts provisions for harmonizing legislation related to turnover taxes, excise duties, and other forms of indirect taxes. These decisions are made unanimously based on proposals from the European Parliament and the Economic and Social Council, and are necessary to enable the creation and functioning of the internal market.

The harmonization of regulations and directives in the field of indirect taxes is eseential for creating a single market within the EU, which involves removing barriers to the free movement of goods, people, services and capital.

The EU Treaty does not mention direct taxes, what poses a significant obstacle for their harmonization.

The most significant progress in the harmonization process was made in the area of sales tax, which occurred in two phases. The first phase began in 1967, when the Council of the European Community adopted the First Directive (67/227/EEC), which stipulated that the primary objective of the Treaty establishing the EEC is the creation of a common market with genuine competition and characteristics that are comparable to those of a domestic market. In order to achieve this objective, it is necessary for member states to first adopt sales tax legislation that does not distort competition or hinder the free movement of goods, people, services, and capital within the borders of the common internal market. The second phase of value-added tax harmonization involved implementing measures to eliminate fiscal controls at borders between member states. Value-added tax harmonization has only set the margins.

NOTES

[1] *Central European Free Trade Agreement* (CEFTA) was established in December 1992 as a trade agreement by the Visegrad Group.

[2] World Trade Organization (WTO) is one international organization based in Geneva, Switzerland, which deals with the promotion and enforcement of international trade laws and regulations. The WTO has the authority to administer and oversee free trade agreements and global trade practices, and examine and settle trade disputes between member countries. The WTO was founded in 1994 when countries tha were members of GATT_signed a new trade treaty. The WTO was established to replace the GATT. The WTO began work on January 1 1995.

[3] Second Council Directive 67/228/EEC of 11 April 1967 on the harmonisation of legislation of Member States concerning turnover taxes – Structure and procedures for application of the common system of value added tax. https://op.europa.eu/en/publication-detail/-/publication/99ab67a1-f672-4605-8a30-c93cf82973de/language-en#.

[4] Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32006L0112.

[5] The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental organisation with 38 member countries, founded in 1961 to stimulate economic progress and world trade. It is a forum whose member countries describe themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices, and coordinate domestic and international policies of its members.
[6] First Council Directive 67/227/EEC of 11 April 1967 on the harmonisation of legislation of Member States concerning turnover taxes; https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:31967L0227.
[7] Council Directive 91/680/EEC of 16 December 1991 supplementing the common system of value added tax and amending Directive 77/388/EEC with a view to the abolition of fiscal frontiers; https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31991L0680.
[8] Directive 92/111/CEE du Conseil, du 14 décembre 1992, modifiant la directive 77/388/CEE et portant mesures de simplification en matière de taxe sur la valeur ajoutée; https://eur-lex.europa.eu/legal-content/FR/TXT/?uri=celex%3A31992L0111
[9] Council Directive 92/77/EEC of 19 October 1992 supplementing the common system of value added tax and amending Directive 77/388/EEC (approximation of VAT rates); https://eur-lex.europa.eu/legal content/EN/TXT/?uri=celex:31992L0077.
[10] Directive 94/5/CE du Conseil du 14 février 1994 complétant le système commun de la taxe sur la valeur ajoutée et modifiant la directive 77/388/CEE Régime particulier applicable dans le domaine des biens d'occasion, des objets d'art, de collection ou d'antiquité; https://eur-lex.europa.eu/legal-content/fr/ALL/?uri=CELEX:31994L0005.

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ХАРМОНИЗИРАНЕ НА ДАНЪЧНИТЕ СИСТЕМИ В ЕВРОПЕЙСКИЯ СЪЮЗ

Резюме: *В историята на човечеството данъчните системи са се различавали една от друга по много начини, включително техните исторически, икономически и правни основи. В резултат на това фискалната хармонизация се очертава като алтернативен подход към фискалната федерализация на страните в сравнение с тяхното национално регулиране. В страните с икономически и фискални различия, както и на международно ниво фискалните различия оказват значително въздействие върху въпроси като международната търговия, валутните курсове, миграцията на хора и капитали и др. Въпреки че всички икономики на страните – членки на ЕС, са част от икономическа интеграция, която се изразява в свободното движение на стоки, услуги, капитали и работна сила като основни икономически принципи и ценности на Европейския съюз, член 93 от Римския договор определя способността на държавите членки да имат пълна независимост при свободното развитие на данъчни политики, включително прилагането на специални видове данъци, като преки и косвени данъци, въпреки че са обект на определени мерки за хармонизиране на данъците, предприети от страните – членки на ЕС. В статията се посочва, че: „Съветът, като действа в единодушие по предложение на Комисията и Икономическия и социален комитет, приема разпоредби за хармонизиране на законодателството относно данъците върху оборота, акцизите и други форми на косвено данъчно облагане до степента, в която тази хармонизация е необходима за осигуряване на създаването и функционирането на вътрешния пазар“.*
Ключови думи: *данъчни системи, хармонизация, данъци, такси, директиви, ЕС*

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