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Main Areas of Tax Reforms in the EU Countries in the Conditions of the Current Crisis

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ABSTRACT: The subject of the research is tax policy and tax reforms carried out in the EU countries in the context of the current economic crisis. The object of the research is the tax systems of the EU member states. The author analyzes the measures of tax incentives and priority areas of tax policy designed to contribute to the economic recovery of the region, the way out of the economic recession, and the solution of key tasks of the socio-economic development of the EU. The article examines the role of tax policy in achieving social objectives, stimulating investment activity, eliminating unfair tax competition.

KEYWORDS: tax policy, tax reform, social and economic policy, tax strategy, tax regimes, tax incentives

I. INTRODUCTION

The global economy is experiencing the effects of the economic crisis that began in 2008 and continues to this day. The manifestations and consequences of this crisis affect various aspects of the economy and social sphere. For the EU countries, the greatest negative impact of the economic crisis was manifested in a decrease in investment activity in the region, an increase in social injustice and a worsening situation in the labor market, and a deficit in the state budget. Currently, the EU unemployment rate remains at an all-time high, despite the fact that it has declined recently.

There are certain factors that have a positive impact on the economic recovery, such as, for example, low oil prices. However, at the same time, other constraining economic and non-economic factors remain - the weakening of the euro against the US dollar, political instability and security issues in Europe in general, the situation in the economies of developing countries, the presence of a large influx of refugees, etc.

Since the beginning of the financial and economic crisis, the level of investment in the economies of the EU countries has significantly decreased, which cannot but affect the rates of economic growth. To get out of the recession, the EU member states have formulated certain measures designed to contribute to the economic growth of the region. The main tasks in the short term, both in the euro area and throughout the EU as a whole, the implementation of which is intended to contribute to the economic recovery, are the following:

- Stimulating investment activity in the EU countries,
- Reducing the state budget deficit and the size of the state debt,
- Structural reforms in the economy.

Social justice and employment of the population are the main components of the recovery of economic growth and the subsequent economic recovery. Moreover, many researchers state that the possibilities of further convergence in the EU will directly depend on solving the problem of job creation, improving the work of the labor market in the EU, as well as achieving a sufficient level of social protection of citizens.

One of the unconditional ways of solving these and other set tasks is the corresponding improvement and increase in the efficiency of the national tax systems of the EU member states, as well as the development of a common strategy for EU tax policy aimed at solving these and other priority tasks of socio-economic development. The role of taxation is not only to finance the state budget. An effective tax policy can stimulate economic growth, regulate employment, and promote economic competitiveness and social justice. In the plans for the short and medium term, the taxation policy in the EU countries is focused on “reasonable” taxation, which implies carefully designed national tax systems and optimally harmonized EU legislation as a whole.

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II. RELATED WORK

Since taxation reduces the expected after-tax return of any risky activity, it may be claimed that higher tax rates will discourage risk-taking, and thus entrepreneurship. For example, the theoretical model in Keuschnigg and Nielsen (2003) suggests that higher and progressive taxation delays entrepreneurship and the expansion of innovative industries. However, the negative link between higher tax rates and entrepreneurship has long been questioned by economic analysis. Since the seminal contribution by Domar and Musgrave (1944), several studies have pointed out that the effect of higher taxes and progressivity on entry into entrepreneurship could be ambiguous (see e.g. Gentry and Hubbard, 2000) or even positive to the extent that the government shares some of the risk with investors by allowing full offset of losses. Gentry and Hubbard (2000) move a step further and obtain different conclusions by arguing that actual tax systems do not typically offer full loss offsets for entrepreneurs and by suggesting that the effect of progressivity on entrepreneurship is actually twofold. On the one hand, the already identified insurance effect of higher progressivity can enhance entry in self-employment because usually a progressive tax provides higher marginal tax rates. On the other hand, a greater convexity of the tax schedule (as, for example, with an increase in progressivity which correspond to higher average tax rates for riskier incomes) acts as a "success tax" and reduces the returns of entrepreneurs who succeed disproportionately with respect to those who do not, and reduces average returns

III. ANALYSIS AND RESULTS

The key areas of tax policy of the EU countries to achieve economic recovery are as follows:

1. Reform of the income tax system.

At the moment, in the EU countries, the size of the tax burden on the wages of individuals is at a fairly high level. The trend shows a decrease in the level of taxation of wages, in particular, for certain groups of taxpayers, such as, for example, low-income groups of the population, which, according to experts, should have positive consequences for all EU member states. The decrease in tax rates on wages is expected to be compensated for by other tax revenues, for example, through consumption taxes, revision of real estate taxes, environmental taxes, as well as by reducing budget spending.

Among the EU member states, only three countries have increased the tax burden on wages in recent years. For example, Bulgaria increased its personal income tax by abolishing the non-taxable minimum income, as well as expanding taxation of interest income and increasing social insurance contributions. Latvia has increased the maximum thresholds for assessing contributions to pension funds, and Luxembourg has introduced a new additional income tax [3].

Eight states (Belgium, Bulgaria, Estonia, France, Croatia, Italy, Malta and the United Kingdom) have lowered income taxation in their countries by reorienting taxation to certain groups of the population and reducing the tax burden on low-paid segments of the population and workers with children [3]. Spain, France, Austria and Portugal have embarked on a general reduction in the income tax burden on individuals, while increasing rates for highly paid categories of individuals, thereby strengthening the progressiveness of the tax scale [3]. Two countries (Latvia and Hungary), which apply a single flat rate of income tax and thereby shift the main tax burden onto low-paid workers, announced a reduction in the level of income tax, including by reducing the rate from 24% to 23% in Latvia and from 16% up to 15% in Hungary. As you can see, the EU countries have taken certain steps to improve their tax systems, but this issue requires further development. For example, to create jobs and maintain employment that meets social and economic needs, it is necessary to reduce taxes on wages, adjust the taxation system for private property and housing. Actually, the trend of EU tax policy in relation to income taxation is to expand tax deductions for children, families and individual entrepreneurs, provide tax credits to individuals, reduce the level of social contributions for young workers or even completely exempt permanent workers from paying them for the first few years of work (designed to stimulate employers to hire younger personnel), and replenishment of budget income from income tax by transferring the main burden to highly paid categories of citizens.

2. Stimulating investment activity.

Taxation is a mechanism of influence on investment activity, since it influences the choice of methods and location of investments, correlating the size of the invested capital and the net income on the ongoing project in which these investments were made. Since the size of the income tax rate is very indicative in this regard, and it varies widely among EU member states, the final level of taxation depends on the tax rate itself and on other provisions of tax legislation that determine the tax base and the total amount of tax paid. There are various types of tax incentives (also

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applied in the EU countries) designed to stimulate innovation, which mainly boil down to the following options: granting tax credits, applying a weighted coefficient when accounting for research and development (R&D) expenditures, exemption of profits from production of innovative products from taxation, accelerated amortization of capital investments in the framework of research and development, exemption from income taxation and contributions to social funds for salaries of employees engaged in research. For example, it is quite widespread to use in practice the so-called depreciation premium, which implies a one-time write-off of the initial cost of a fixed asset, followed by amortization of the remaining part during its useful life. In this case, there is an immediate decrease in taxable profit by part of the investment made for the purchase of fixed assets, which, in particular, can play a decisive role in making investment decisions. Certain studies in the EU in this area confirm a direct relationship between the level of corporate taxation and the investment activity of companies. Thus, a decrease in the effective marginal profit tax rate by 1 percentage point entails an increase in the inflow of foreign investment by 3% [3].

An increase in this tax rate also has a negative impact on domestic investment. The effective marginal income tax rate affects the level of investments made as a whole, shows the degree of influence on corporate investments and determines the profitability of making investments for the company at the current established income tax rate, i.e. shows whether the company will invest more (due to the possible receipt additional profits) or, conversely, less (since investment at the existing level of taxation is made unprofitable). The size of the effective average tax rate characterizes the average tax burden on any object of taxation (for example, income) and represents the ratio of gross income to the maximum possible tax base, which ultimately affects the company's decisions about the location of its investments. The availability of tax incentives varies widely in different EU countries and implies different exemptions and exemptions from taxation, as well as ways of providing such benefits. Tax incentives for R&D spending are essential for economic development and social welfare growth. However, the expected benefits from such costs in the long term are unclear for the business, as well as the expected income from these costs. Accordingly, the amount of expenditures of companies on R&D in the EU is currently at a level lower than expected by the population and the state. Which, in turn, gives rise to discussions on choosing the most effective way to stimulate government spending private business for R&D - either through tax incentives, or through direct government subsidies to companies for R&D.

A large number of innovations in the field of tax incentives for research and development have occurred during the period from the beginning of the crisis to the present and are aimed both at encouraging companies to directly spend on research and development, and at direct commercialization of the results of research and development (for example, the taxation regime for “patent boxes”, which implies exemption from taxation of profits from the sale of innovative products). These innovations had a positive effect on stimulating the inflow of investments in the field of research and development, although not to the extent that was expected at the state level. In addition to an increase in R&D expenditures, it was expected that these tax incentives would stimulate companies to produce new innovative products (goods and services), including those that meet the social needs of society. At the moment, there is a large number of discussions on the topic of how justified these tax incentives are, how much they really stimulate companies to invest in research and development and the development of innovative products, how effective these benefits are compared to direct state subsidies for research and development, etc. Indeed , it is often difficult to assess the real economic effect of the application of tax incentives due to the differences between the EU countries in the methodology for calculating the tax base and the benefits themselves, different taxation regimes, and the impossibility of assessing the added value in the final product through the use of research and development. Accordingly, it is obvious that there is a need to revise the existing tax incentives for research and development in order to increase their stimulating effect on economic growth and development of innovations. Stimulating investment requires a simple, straightforward and stable tax system that will reduce administrative and bureaucratic costs and help create a more favorable investment environment and build a fair taxation system in general.

Certain steps have been taken in this direction. In accordance with the EU development strategy for the period until the end of 2020, the issue of stimulating investment in research and development is given special importance as a lever that will give a significant impetus to economic and innovative growth and development of the region. According to the results of 2015, the EU average size of R&D expenditures is 1.9% of GDP; Finland ranks first - 3.2% of GDP, followed by: Denmark - 3.1% of GDP, Austria - 3% of GDP, Germany - 2.8% of GDP.

In accordance with the investment plan developed by the EU Commission, it is expected to mobilize at least 315 billion euros of additional investment in the next 3 years and thereby return to the pre-crisis level of investment [6]. With the support of the European Parliament and the European Council, as well as the European Investment Bank and

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the European Fund for Strategic Investment, financing of investment projects in the real sector of the economy has already begun, including individual projects of small and medium-sized businesses. Summing up, it should be noted that the trend of taxation in the EU is reduced to a reduction in the tax base while expanding it in certain cases in order to stimulate investment and increase competitiveness on the one hand and reduce opportunities for tax evasion and reduce ineffective tax incentives on the other.

3. Counteracting tax evasion

In this direction, a number of steps are expected to improve cooperation between tax and other administrations of countries in the field of combating tax evasion and tax fraud. Most countries have already taken some measures to strengthen cooperation in this area, involving close cooperation between the tax authorities, the police and the prosecutor's office. Germany has carried out a number of joint audits with Austria and Croatia and the Netherlands, Belgium is working at the national and international level with various government agencies, Finland has continued to implement a medium-term plan designed to identify and combat shadow economy actors. In a number of countries (Italy, Latvia, Lithuania, Poland, Slovenia, Sweden) legislation has been introduced that obliges individuals and legal entities to submit information to the national tax authorities about their financial accounts opened abroad, as well as obliging foreign financial institutions to report to the territory of the state, the resident of which is such an individual or legal entity, information about their foreign assets and financial accounts. At the beginning of 2016, a multilateral agreement was signed between the countries-members of the OECD (including twenty countries from the EU: Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and Great Britain), which involves the automatic exchange of reports in the tax area between countries. In addition, a campaign was announced to counter the erosion of the tax base and the transfer of income to low-tax jurisdictions, within which 15 priority actions were formulated, which are as follows

- Identification of problem areas of taxation of the virtual economy.
- Elimination of hybrid cross-border schemes.
- Improvement of the legislation on taxation of controlled foreign companies.
- Preventing the erosion of the tax base by tightening the procedure for attributing interest expense to taxable profit reductions.
- More effective counteraction to unfair tax competition, with greater emphasis on the transparency of transactions and their economic substance.
- Prevention of misuse of provisions of legislation on avoidance of double taxation.
- Preventing foreign companies from evading permanent establishment.
- Control over the application of transfer pricing rules.
- Control over the erosion of the tax base and the transfer of income to low-tax jurisdictions.
- Implementation of mandatory disclosure rules for certain tax information.
- Development of rules for the compilation and disclosure of information on transactions that fall under the provisions of transfer pricing and cross-country information exchange.
- Implementation of a more efficient mechanism for resolving tax disputes.
- Development of intercountry instruments for the settlement of bilateral tax agreements.

Figure 1 Total tax revenue by Member States and EFTA countries, 2017 and 2018, % of GDP

Source: Eurostat (gov_10a_taxag)

In 2018, tax revenue in absolute terms increased in 28 EU Member States

Between 2017 and 2018, increases in the tax-to-GDP ratios were observed in sixteen Member States as well as Norway. In percentage points, the highest increases in % of GDP from 2017 to 2018 were recorded by Luxembourg (from 39.1% in 2017 to 40.7% in 2018), ahead of Romania (from 25.8% to 27.1%) and Poland (from 35.0% to 36.1%).

Decreases or in the tax-to-GDP ratio or stable ratios were observed in twelve EU Member States (Denmark, Hungary, Finland, Sweden, Latvia, Malta, Ireland, Italy, Greece, Slovakia, the Netherlands and France). The largest decreases in the tax-to-GDP ratio were observed in Denmark (from 46.8% in 2017 to 45.9% in 2018), Hungary (from 38.4% to 37.6%) and Finland (from 43.1% to 42.4%).

In absolute terms from 2017 to 2018, there was no country for which overall decreases in revenue from taxes and social contributions were recorded. Tax revenue increased in absolute terms in all 28 Member States as well as Norway and Switzerland. Among EU countries, the strong increases in absolute tax and social contribution revenue

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from 2017 to 2018 were observed by Romania (+15.7 %), Estonia and Luxembourg (both +10.0 %), Lithuania and Poland (both +9.6 %) and Bulgaria (+9.1 %). Norway also recorded an increase in 2018 (+10.0 %)

Figure 2 Total revenue from taxes and social contributions, EU-28 and EA-19,% of GDP, 1995-2018
Source: Eurostat (gov_10a_taxag)

The effects of the economic and financial crisis on tax revenue from 2007 onwards are apparent. From its last spike in 2007, the ratio of tax revenue to GDP in the EU-28 decreased by 0.8 percentage points to 38.4 and 38.5 % in 2009 and 2010, while the ratio for the EA-19 also decreased by 0.8 percentage points from its peak of 40.1 % in 2007 to 39.3 % in 2010. Tax revenue was decreasing more than GDP at that time. From 2011 to 2013, tax revenue in terms of GDP increased substantially, which was due to absolute tax revenue increasing along the same path as in the previous years and GDP growth being lower. This reflects pro-active tax measures taken by Member States during recent years to correct their government deficits, such as VAT rate increases and new taxes, for example bank levies and taxes on property. EA-19 tax revenue as a percentage of GDP remains at a higher level than EU-28 tax revenue. From 2014 to 2015, tax revenue in the terms of GDP slightly decreased in both EU-28 and the euro area, before increases from 2016 to 2018 (see Figure 2).

IV. CONCLUSION

Thus, the trends in tax policy in this area in the near future boil down to tightening control over the payment of taxes and strengthening international cooperation between various departments of the EU member states and other countries, designed to improve the efficiency of international taxation, and achieve transparency in transactions of transnational corporations and companies. Measures to improve tax policy in the EU countries are now increasingly complex and diversified, aimed at stimulating economic growth in all possible directions. The intensification of tax incentives in three main areas should be emphasized: reforming the income tax system (supporting low-income strata of society and families with children); stimulating innovation activity in all sectors of the economy, including small and medium-sized businesses; countering tax evasion and strengthening cross-country cooperation and cooperation in this area. These areas remain a priority for the near future and are designed to contribute to the economic recovery of the region and help to overcome the economic recession.

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