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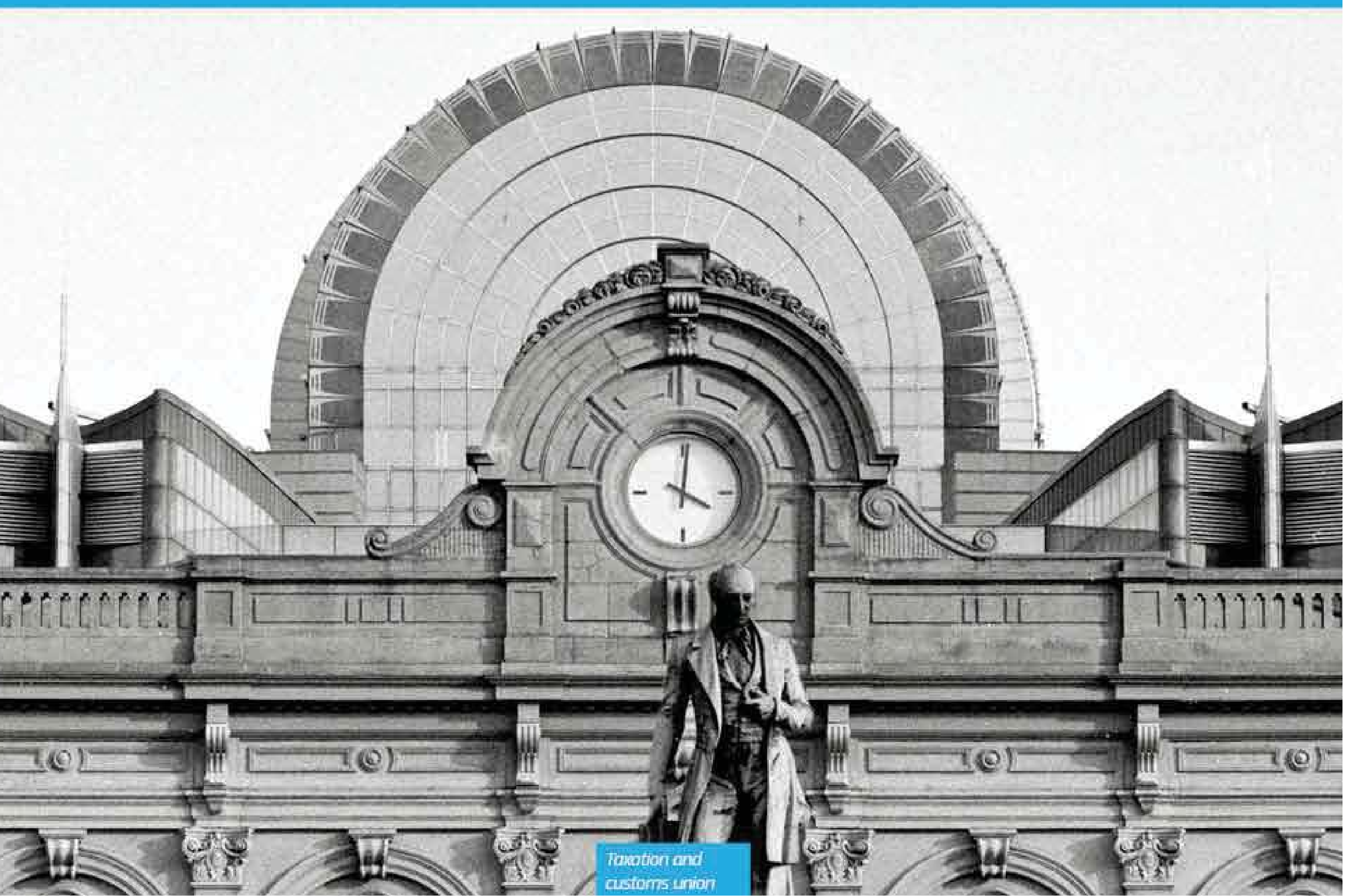

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Recent Reforms of Tax Systems in the EU:

Good and Bad News

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October, 2013

Abstract: This paper reviews to what extent Member States followed the tax policy priorities put forward by the European Commission in the Annual Growth Survey of November 2012: shifting taxation away from labour, broadening tax bases, reducing corporate tax debt bias and improving tax compliance. The 'good news' which emerges from the analysis is that overall Member States are making efforts to make tax systems more efficient, competitive and fair; the 'bad news' is that the extent of the challenges calls for more action in all the priority areas identified.

JEL classifications: H11, H20, H24, H25, H26, H27, H87

Keywords: European Union; taxation; tax policy; VAT; fraud; corporate taxation; personal income taxation; environment; research and development

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"From our analysis of the tax reforms being undertaken across the EU, we see that things are generally moving in the right direction. Efforts are being made to redesign tax systems in a way that supports jobs and growth, and that – crucially – ensures fairness. For example, we see a trend towards targeted measures to protect vulnerable groups. There has been a new and very visible focus on tackling tax evasion, so that honest citizens don't pay for the tricks of the dishonest. And, many Member States have also focused their tax reforms on boosting competitiveness, for example, by reducing corporate tax rates or using tax measures to encourage research, investment and entrepreneurship. All of this is encouraging, and shows the recognised value of the partnership approach offered through the European Semester. However, this certainly does not mean that the job is done. Tax reform is not an overnight process. It requires consistency, dedication and continuous review."

Algirdas Šemeta, Commissioner responsible for Taxation and Customs Union, Statistics, Audit and Anti-fraud; Press conference following the adoption of Commission's proposals for 2013 country specific recommendations.

1. INTRODUCTION

In May 2013, the European Commission concluded the third European Semester, an annual cycle of economic policy coordination set up to deliver the Europe 2020 strategy. Towards the end of each year, the Commission puts forward a set of policy priorities for the next cycle with a communication called Annual Growth Survey (AGS). In March, the European Council issues guidance for national reforms on the basis of the AGS. Member States submit to the Commission their reforms and stability or convergence programmes in April, taking into account the AGS priorities. Between May and June, the Commission assesses national programmes and issues country-specific recommendations containing policy advice to the Member States before they conclude the preparation of their draft budgets for the following year. The Council finally adopts country-specific recommendations at the end June or early July[2].

The AGS presented by the Commission in November 2012 contained the following tax-related priorities:

- Shift taxation away from labour, in countries where it is particularly high and limits job creation;
- Raise additional revenues by broadening tax bases, rather than increasing taxes or creating new ones; and by improving tax compliance;
- Reduce corporate tax debt bias;
- Reform real estate and housing taxation to prevent the recurrence of financial risks in the housing sector.

The main objective of this paper is to review tax reforms undertaken by the Member States during the last 12 – 18 months and see if and to what extent they went along the tax-related priorities set by the AGS. Measures are considered 'good news' when they go in the direction of the AGS priorities; 'bad news' when they don’t. Moreover, the paper tries to identify a few good practices among Member States’ reforms.

The starting point for the paper is the annual assessment of Commission services of the national reform and stability and convergence programmes which the Member States

[2] More information about the European Semester can be found at: http://ec.europa.eu/europe2020/making-it-happen/index_en.htm

submit in early spring and on country-specific recommendations proposed by the Commission. These assessments and recommendations are publicly available as the Commission Staff Working documents and the Commission recommendations[3]. In this paper the authors assess progress made by Member States on the basis of these two sets of documents and changes in the Commission assessment between 2012 and 2013.

The discussion is organised as follows: section 2 presents the main trends in taxation during the period 2012-2013; section 3 reviews measures taken to reduce tax burden on labour; section 4 discusses reforms aimed at broadening tax bases; section 5 focuses on measures taken to enhance competitiveness and address environmental concerns; section 6 reviews initiatives in the field of housing taxation; section 7 gives an overview of actions to improve tax compliance. Finally, section 8 concludes by summarising the main trends and pointing out ‘good’ and ‘bad’ news in the evolution of Member States’ tax systems.

[3] These documents are available online on the Europe 2020 website of the Commission at: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

Please see references for additional information.

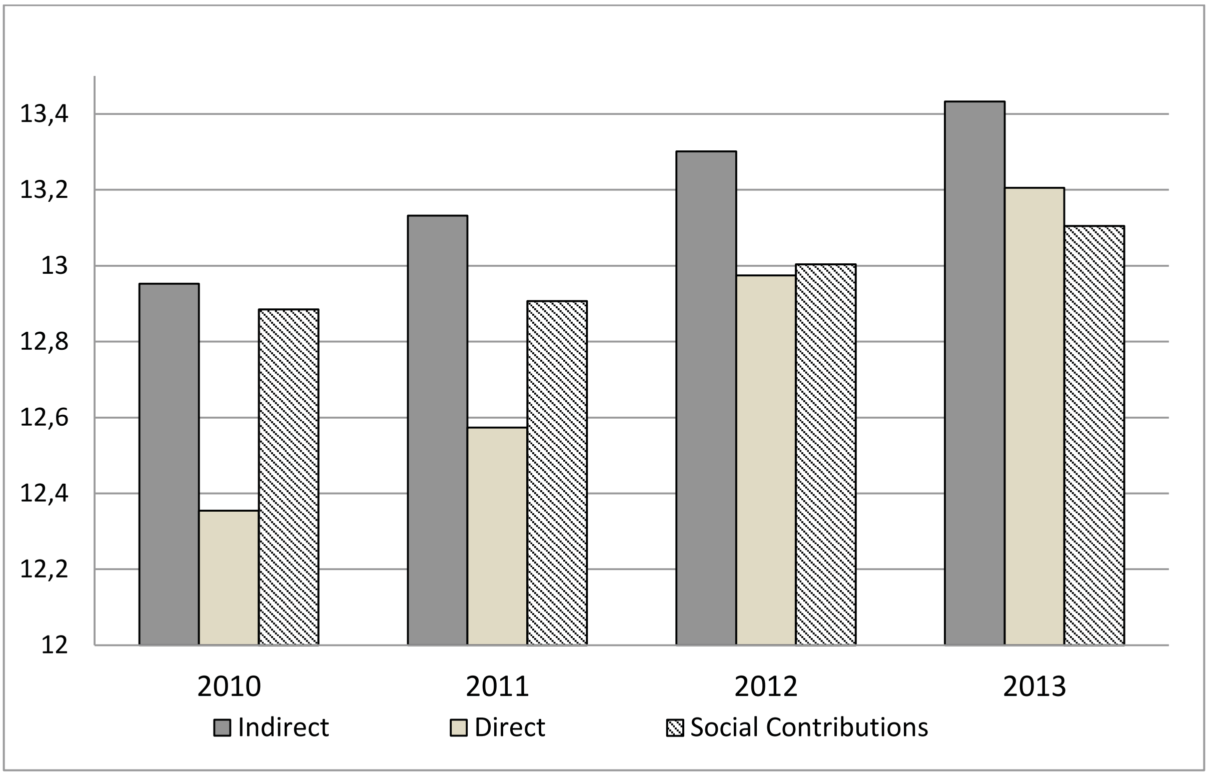
2. MAIN TRENDS IN TAXATION

The difficult fiscal positions of many Member States led to an overall increase of the tax burden.

Given the continued need for the fiscal consolidation, the overall tax burden kept growing in many Member States (revenues from direct and indirect taxes as well as social security contributions). Following the outburst of the crisis, tax revenues were at their lowest in 2009-2010. Since then, the tax burden has grown due to fiscal consolidation measures. Graph (1) shows that between 2010 and 2013 revenues from both direct and indirect taxes have increased. As a share of GDP the increase has been limited: revenues from direct taxes have increased by less than 1 percentage point of GDP and those from indirect taxes of about half percentage point of GDP[4]. Three-fourths of Member States have recorded increases in direct and indirect tax revenues over 2010-13, and revenues from SSC have increased in a majority of Member States.

[4] European Commission Annual Macro-Economic database (AMECO). The database includes short term economic forecasts produced bi-annually by the Directorate General for Economic and Financial Affairs (DG ECFIN). For the Spring 2013 update of the database (used in this paper and made public on 3/5/2013), forecasted years are 2012, 2013 and 2014.

Graph (1): Evolution of tax revenues, EU-27 (% of GDP)

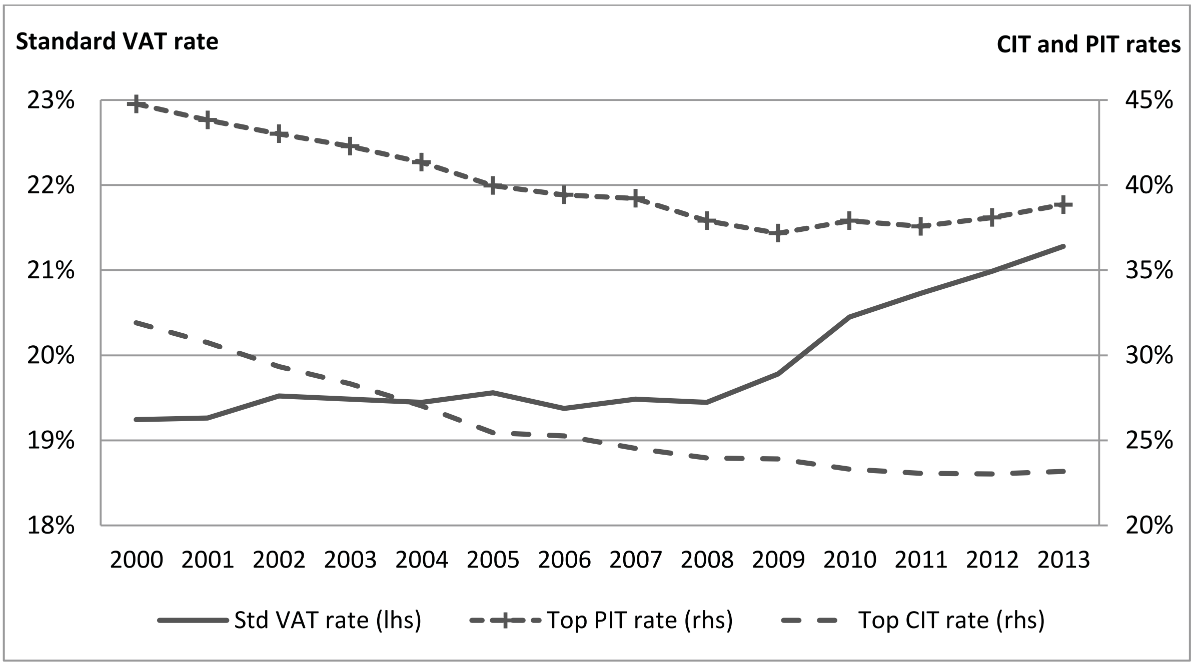


Source: European Commission, AMECO Spring 2013 forecast

At the aggregate EU level, the clear rise in standard VAT rates contrasts with the levelling-off of the top corporate income tax rate, while the recent evolution of the top PIT rate reverses the declining trend observed in previous years[5].

[5] See graph (2) for a comparison of the evolution of EU-averages of standard VAT rate, and of top PIT and CIT rates. Standard VAT rates and top CIT and PIT rates are compiled in the Taxation trends report (European Commission, 2013b), which also contains a detailed statistical and economic analysis of the tax systems of the Member States of the European Union. http://ec.europa.eu/taxhards

Graph (2): Evolution of standard VAT rates and of top CIT and PIT rates, EU-27 (simple arithmetic averages)



Source: European Commission services. 2013 edition of the Taxation Trends Report (European Commission, 2013b).

While it is difficult to estimate the overall impact of tax reforms taken by Member States during the last 12-18 months (summarised in table (1)), in general we observe that:

- In indirect taxation, most Member States introduced reforms in the area of VAT; a majority of which reflects increases in statutory rates rather than broadening of the VAT base. Furthermore, a large majority of Member States increased excise duties mostly mirroring inflation.

- As far as direct taxes are concerned, there seems to be a trend towards more progressivity in PIT. Overall, the tax burden seems to increase on the higher end of income brackets and to be lowered on the lower end. Measures to increase SSC have also been adopted in some Member States. Many Member States decreased the corporate income taxation (CIT) mostly by narrowing the tax base. Half of the Member States undertook reforms in property taxation.

In the later sections, we will discuss in more details what kind of reforms hide behind these main trends and how they relate to the country specific recommendations.

Table (1): Tax changes in 2012 and 2013

			Statutory rates	Base or special regimes
Personal Income Tax		Increase	BG[9],-EL, FR, CY, LU, PT, SI, SK, FI[1]	BE, CZ[2], EE, IE, EL, ES, FR, LU, NL, AT, PL, FI, UK, PT
		Decrease	LV, MT	BE, DK, DE, IT, HU, MT, NL, AT, SI, FI, SE, UK
Corporate Income Tax		Increase	EL, CY, LU, PT, SK, HU	EL, ES, FR, LU, AT, FI, PT, BE, FR
		Decrease	DK, EE, SI[3], FI[4], SE, UK[3]	IE, EL, ES, FR[5], HR, IT[5], LT, LU, HU, NL, RO, SL, FI, SE, UK, CZ
Social Security Contribution		Increase	CY[4], HU[8], NL, AT	CZ, EE, IE, AT, SK
		Decrease	EE, HR	BE, HU, PT
Value Added Tax		Increase	CZ, ES, FR[7], HR, IT[6], CY, NL, SI, FI	BE, ES, LV, LU, PL, PT
		Decrease	EL, HR, LV	LT, LU, SE
Excise duties	Energy products and electricity	Increase	BG, EE, EL, ES, HR, IT, CY, LT, LU, HU, MT, PL, PT	BG, CZ, ES, LV, AT
		Decrease		SE
	Tobacco, alcohol and sugar etc.	Increase	EE, IE, EL, ES, HR, CY, LT, LU, HU, MT, NL, AT, PL, PT, RO, SI, UK	
		Decrease		DK
Environmental taxation (excl. excise duties on energy)		Increase	DK, IE, ES, HU, IT, HR, MT, NL, RO, SK, UK	IT, LU, HR, NL, UK
		Decrease	AT, MT, DK	
Taxation of Property		Increase	CZ ,IE, IT, CY, FI, SI, UK	LV, LT, RO, SI, PT
		Decrease	EE, PT, SE	

Note: The table encompasses tax changes implemented in 2012 and the first half of 2013 including temporary changes. The table does not give the idea of an order of magnitude of the reforms and registers both small and more substantial measures. Therefore, it is not possible to draw from the table firm conclusions on changes to the overall tax burden in a certain country. Introduction of new measures are listed as an increase in statutory rate. Changes in tax brackets (thresholds) are considered as base changes. An increase in VAT reduced rates is classified as a 'statutory rate' increase while measures extending the application of the standard VAT rate are treated as a base broadening. Increases in excise duties may simply be due to indexation. A country may appear more than once per tax category if it took measures going in different direction. [1]Temporary. [2]Temporary, not affecting the reforms to be introduced in 2015 which will reduce the overall taxation of labour. [3] On-going, gradual decrease in CIT rate. [4]Reform will apply as from 1 January 2014. [5] Measure to reduce labour tax burden. [6] On 1 October 2013 the standard rate increased from 21 to 22%. [7]As from 2014. [8] As from August 2013, new 6% health care contribution on interest income. [9] The PIT increase only affects interest income.

3. REDUCING TAX BURDEN ON LABOUR: TAX SHIFT AND TARGETED REDUCTIONS

The current economic situation induced Member States to rethink their tax systems, but there is still scope for improvement.

The Commission recommends in the 2013 AGS that: ‘The tax burden on labour should be substantially reduced in countries where it is comparatively high and hampers job creation. To ensure that reforms are revenue neutral, taxes such as consumption tax, recurrent property tax and environmental taxes could be increased’.

The present economic, budgetary and political situation offers an opportunity to reform and stresses the need for rethinking tax systems. An optimal design of tax systems can help achieve desired policy objectives in an efficient way (such as revenue generation, redistribution, and stabilisation) while at the same time minimising distortions, collection costs and promoting growth.

According to some economic research, tax categories can be ranked with respect to their likely impact on GDP and growth. Based on empirical results, Arnold et al.[6] and Acosta-Ormaechea and Jiae[7] demonstrate that shifting revenues from direct taxes (including corporate and personal income tax and social security contributions) to indirect taxes (such as VAT and recurrent property taxes) contributes to economic growth. While environmental taxes have not been ranked explicitly, the fact that they fall mostly on consumption and that they internalise negative externalities, has led to their inclusion into the list of taxes being least detrimental to growth. Currently, in the EU the share of taxation less detrimental to growth amounts to approximately 36%, with large variations between Member States (reference year: 2011). Hence a change in the tax structure, i.e. as shift towards less distortive taxes could improve the EU growth perspective. This is a priority set in the Annual Growth Survey of 2012 and 2013, and endorsed twice by the European Council.

Country specific recommendations on the tax shift take two forms, which are complementary: 1) a general shift from labour (or capital) taxation to other taxes such as

[6] Arnold, Brys, Heady, Johansson, Schwellnus, & Vartia, 2011

[7] Acosta-Ormaeche & Yoo, 2012

consumption, environmental and property taxation; and 2) a reduction of the labour tax burden for certain groups such as second earners or low-income workers.

In 2012, eleven countries received a CSR referring to shifting taxation away from labour or reducing the labour tax burden on specific groups. These countries were: Austria, Belgium, Czech Republic, Germany, Estonia, Spain, France, Hungary, Italy, Latvia, and Slovakia. In 2013, the Commission assessed that the majority of the recommendations were not implemented forcefully[8]. Member States usually increased indirect taxes, but this trend was not accompanied by corresponding cuts in labour taxation to reduce the relatively high cost of labour. As a result, for all of the above mentioned countries - except for Estonia and Spain – the recommendations were reiterated in 2013.

Over 2012-2013, Austria, the Czech Republic, and Slovakia adopted measures seemingly in contrast to the recommendation that led to increases in the labour tax burden in 2013, notably in Slovakia. The measures in Germany, Belgium, Hungary, Italy and Latvia, and France decreased the labour tax burden. However, the reductions in Germany Belgium, Italy, and France were considered by the Commission to be limited in extent. In Latvia and Hungary the tax burden on low income was still considered too high. Moreover, the labour tax decreases in Hungary were accompanied by increases in sector specific corporate taxes which are not considered growth-friendly.

[8] European Commission, 2013a

3.1 Targeted reduction in labour tax burden

In the context of the crisis, fairness aspects have increased in importance and are reflected in the way some tax reforms were designed. The goal of a fairer tax system and higher employment of groups who are the most responsive to tax changes has influenced the reform agendas in several Member States.

Although the overall tax burden on labour has not decreased, measures were taken to decrease the high tax burden on labour for targeted groups. As the labour tax burden has an important effect on the employment outcomes of some well identifiable social segments, the Taxation annex of the 2012 Annual Growth Survey recommends in particular measures targeted to these groups[9]. The economic literature [10] has identified second earners as a group with particularly high labour supply elasticity, especially through the labour participation decision, which means that the employment outcomes of this group react sensitively to changes in labour taxation. Further target groups include the low-income in general, single mothers, the low-skilled and older workers close to the retirement age. For the young with little or no professional experience the labour demand side is especially elastic[11].

As the crisis got longer and deeper, it seems that there was a growing recognition that tax reforms should be designed in a growth-friendly manner and not at the expense of the poor. While the overall tax burden has increased, tax reforms in seventeen Member States went in the direction of greater redistribution on the revenue side, as shown in Table (2). Eleven countries focused their PIT increasing measures on higher earners. Three of them simultaneously decreased the tax burden on lower brackets or targeted groups: Portugal for hiring over the unemployed over forty-five years old; the Netherlands for older workers; and France for low and medium brackets.

Six additional Member States (Belgium, Denmark, Finland, Hungary, Italy, and Sweden) have implemented measures focused on reducing the tax burden on labour for targeted categories of workers. These aim at low earners in general, but also at older workers (Belgium, Hungary, Sweden), the low skilled (Belgium, Hungary), the young (Belgium,

[9] European Commission, 2011a

[10] OECD, 2011

[11] Mirrlees, et al., 2011 and European Commission, forthcoming.

Hungary, Italy), women (Hungary, Italy) and those employed in some geographical areas (Hungary, Italy).

The issue of burden sharing between higher and lower earners (known as vertical equity) seems to be gaining prominence in the context of tax increases due to budgetary consolidation. Following the analysis of Atkinson and Stiglitz[12], there is a broad consensus in the economic literature that the use of progressive income taxation is more suitable for redistribution purposes than differentiated commodity tax rates (e.g. reduced VAT rates)[13]. Given that the majority of the PIT increasing measures focused on high-income earners, this could mitigate to a certain extent the regressive effect of increases in consumption taxes.

In the nine Member States concerned (see Table 2), the targeted measures to decrease the cost of labour in most cases concentrate on employers' tax burden and not directly on employee / household taxation. Another common characteristic of these changes is that they typically do not take the form of rate cuts, but instead the tax bases are narrowed due to extended allowances or tax credits (Denmark, France, Finland, Italy, the Netherlands and Sweden) and rebates (Portugal). Belgium and Hungary reduced SSC of employers while France and Italy introduced or extended an employment related deduction from corporate taxes. It is likely that the employer side measures are better suited in the short term to contribute to an ‘internal devaluation’ by reducing the tax cost of labour. This could also be expected to have a larger impact on tackling unemployment.

[12] Atkinson & Stiglitz, 1976

[13] The Atkinson-Stiglitz model does not include the possibility for inheritances, as the total lifetime income is derived from labour. Therefore, it does not provide guidance about the desirability of inheritance taxation for redistributive purposes.

Table (2): Changes in PIT and SSC burden in 2012 and 2013 for high and low income earners and business tax reductions.

		Increase	Decrease
PIT	High income	NL, PT, FR, AT, SK, CY, EL FI, LU, SI, CZ	HU, DK, MT, UK, LV
	Low income/other disadvantaged		FI, DK,NL, SE, LV
SSC	High income		
	Low income/other disadvantaged	AT	BE, HU, NL, PT
Business Tax Credits	Low to medium income/ other groups and geographical areas		FR, IT

Box 1. A few examples of incentives for vulnerable groups

In Belgium, measures taken consist of reduction in social contributions for SMEs and certain categories of employees. Moreover, low wage workers will benefit from ‘work bonuses’, strengthened by a reduction in employer's social contributions together with a tax credit. In Hungary, reduction or elimination of social security contributions have been aimed at young, older, low-skilled, previously unemployed workers and working mothers with young children. In Finland, low income earners benefit from increased basic allowances. Portugal has focused on measures encouraging employment of workers aged 45+, by reimbursing the employer's social security contributions. In Sweden, workers older than 65 benefit from an increase in the basic PIT allowance.

4. TAX BASE BROADENING

Additional gains in the efficiency, competitiveness – but also on equity - of tax systems were partly achieved by broadening the tax bases following last year's recommendations, but this was insufficiently exploited.

Most tax systems contain various exemptions, allowances, reduced rates and other specific regimes, known as 'tax expenditures'. These tax expenditures are not always justified and they can be inefficient in achieving their intended policy objectives, often because they are not well targeted. This is in particular the case with VAT exemptions and reduced rates where studies illustrate the welfare gains that could be achieved from base broadening. Extensive use of tax expenditures in personal income tax (PIT) and corporate income tax (CIT) may also introduce uneven tax treatment between taxpayers affecting the perceived fairness of the taxation system. They can make the system more complex and increase compliance and administrative costs. Overall, the broadening of the tax base and the simplification of the tax system could not only lead to more revenues, but also make paying taxes easier for citizens and businesses and managing them simpler for administrations. Removing inefficient tax expenditures could also offer an opportunity to lower the statutory rates and thus enhance the growth-friendliness of the tax system.

That is why base broadening has been listed as a priority for tax reforms since the very first AGS adopted in 2011. Country specific recommendations on base broadening have focused on two aspects: 1) extending the use of standard VAT rate and 2) streamlining tax expenditures in corporate (CIT) and personal income tax (PIT). In addition, separate recommendations were issued on addressing debt bias in corporate taxation.

In 2012, seven countries (Germany, Spain, France, Hungary, Italy, Sweden, Slovakia) were issued CSRs referring to the need to broaden their tax base, mainly on VAT broadening. In 2013, the Commission assessed that both the broadening of the tax base and the simplification of tax systems had been insufficiently exploited. Some Member States took steps in that direction which primarily focused on simplifying the VAT system[14]. Both narrowing and broadening happened with respect to PIT and CIT bases. In several Member States, taxes have been simply raised while broadening the tax base by reducing tax

[14] European Commission, 2011b: the VAT system should be simple, efficient and neutral, robust and fraud proof.

expenditures and exemptions could have been a more effective strategy. Accordingly, for the 2013 cycle, the Commission maintained the base broadening recommendations to eight Member States, lifted them for Slovakia and added three new ones for Belgium, Luxembourg and the United Kingdom.

The **VAT tax base** was broadened by five Member States (Belgium, Luxembourg, Spain, Latvia, and Poland) which extended the application of their standard VAT rate. French measures will start as from 2014. For example, goods and services such as hotels, discotheques, artistic performances, cinemas, theatres, zoos, amusement parks are now taxed in Spain at the standard VAT rate and no longer at the reduced one. Conversely, Sweden introduced in 2012 a reduced rate for restaurants and catering services to support job creation, mainly youth employment. In line with the 2012 Council country-specific recommendation, the government has commissioned an in-depth analysis of the relevance and effectiveness of the reform[15].

Slightly more countries have broadened their **personal income tax** base than decreased it. Base broadening measures include a comprehensive income tax reform in Greece which reduced special tax regimes and tax expenditures. In France, several tax benefits, such as the family quotient or the exemption of overtime wages, have been reduced or abolished. At the same time, some Member States introduced targeted reductions in tax burden for certain groups which are a base narrowing measure, but effective and fair way to stimulate employment (as discussed in the previous section).

Most of the reforms in **corporate taxation** focused on the tax base decreasing measures. This trend, combined with a decrease in headline corporate tax rates in some Member States (for example Denmark, Estonia, Sweden, Slovenia and the UK) is driven by policy makers concerns around deteriorating competitiveness of European companies. Those Member States which increased their corporate tax base mostly focused on restricting loss reliefs and on limiting the interest deductibility in order to reduce the debt bias (as described in the later section).

As base broadening remains insufficiently exploited, Member States could benefit from **reviewing the effectiveness of tax expenditures** in terms of forgone revenues and fulfilment of policy objectives. Based on available information, a regular (partial or complete)

[15] Initial conclusions will be delivered in January 2014; the final assessment is expected for 2016.

assessment of tax expenditures is carried out in a limited number of Member States only: Austria, Belgium, Finland, France, Germany, Greece, Italy, Netherlands, Poland, Portugal, Spain, Sweden and the United Kingdom[16]. Experience shows that any allowance once introduced can be very difficult to remove and get distorted over time. Tax breaks tend to create vocal interest groups (even if they did not lobby for it in the first place). Regular reviews could limit the problem of policy persistence.

Box 2. Decision framework for new tax expenditures in the Netherlands

In the rules for drafting the National Budget (Rijksbegrotingsvoorschriften) of the Netherlands there is a framework for the introduction of new tax expenditures. Before new tax expenditures are introduced the following six questions have to be answered positively: 1) is there a clear definition of the problem 2) is the objective of the measure clear and unequivocal? 3) Can it be shown why financial intervention is necessary? 4) Can it be shown why a subsidy is preferred to a levy (on behaviour not desired)? 5) Can it be shown why a tax subsidy is preferred to a direct subsidy? 6) Is evaluation of the measure guaranteed?

The first questions are used to ensure that tax expenditures are the right instrument. The last question is there to make sure that the new expenditure will be evaluated. In addition to the decision framework, the state secretary for Finance has stated that he is aiming to add as often as possible a sunset clause to new tax expenditures. When a sunset clause is added to a new measure and this measure is not evaluated positively within five years of its introduction, the measure will expire automatically. A sunset clause can also be introduced on existing tax expenditures after evaluation. This year, the conclusions of the evaluations of the deduction for energy-saving investments, the deduction for environmentally friendly investments and the depreciation at will of those investments lead to sunset clauses for these tax expenditures. With this framework Dutch authorities aim to limit the use of tax expenditures.

[16] OECD, 2010

4.1 Reducing debt bias in corporate taxation

A large majority of the corporate tax systems favours financing by debt against equity by allowing deduction of interest costs, while there is no similar treatment for equity returns[17]. This leads to a corporate tax bias towards debt-financing. Favourable treatment of debt could create important risks as it incentivises companies to take on debt and it may erode the tax base through international profit shifting and hybrid instruments. Moreover, it can penalise innovative companies and start-ups financed through equity-raising[18].

Malta, France and Spain were addressed a specific recommendation on reducing the corporate tax bias towards debt financing in 2012. To remedy the discrepancy in the tax treatment of debt and equity, Member States have introduced some allowance for corporate equity (ACE) or taken measures to restrict the level of interest deductibility, such as thin-capitalisation rule or earnings stripping rules[19]. France and Portugal restricted the deduction of interest payments above the threshold of EUR 3 million. Spain, Sweden and Finland limited the scope of deductibility of interest expenses on intra-group loans. Finally, Hungary introduced a cash-flow tax for small companies, which in practice allows for immediate expensing of all financing costs.

Spain, France and Malta retained their recommendations in 2013 and two new ones were issued for Luxembourg and Sweden taking into account the level of corporate debt, the relative gap between the effective marginal tax rate on debt and on equity for new investments, and the measures in place.

5. COMPETITIVENESS AND ENVIRONMENTAL CONCERNS

5.1 Competitiveness

Concerns around decreasing competitiveness led many Member States to introduce tax changes aimed at softening the impact of the crisis and at stimulating private sector investments and consequently boosting the economy.

Even though tax base broadening remains the priority, the Commission acknowledges that when market failures are identified, targeted measures to stimulate competitiveness may

[17] Fatica, Hemmelgarn, & Nicodème, 2012

[18] de Mooij, 2011

[19] European Commission, 2012

contribute to growth[20]. In a limited number of cases departure from the broad tax base can be justified. Certain taxpayers' behaviour could benefit the wider economy and the society, but the market price may not recognise a true cost of such behaviour. A good example is research and development (R&D). R&D investment improves social welfare through higher productivity, but at the same time the returns are highly uncertain and difficult to appropriate due to knowledge externalities. Companies' R&D investments can therefore fall short of the socially desirable level. Imperfect market signals could be compensated through well targeted tax incentives. A tax system that effectively accounts for spillovers could contribute to economic growth and welfare (for example by increasing positive spill-overs associated with R&D investment). However, such spillovers should be big enough to justify the cost of the departure from the benchmark tax treatment.

The 2013 Annual Growth Survey underlines that some framework conditions need to be in place at the national level to stimulate growth and competitiveness. This includes a favourable environment for driving innovation, new technologies and raising levels of public and private R&D investment. The Commission communication concluding the 2013 European semester stresses that '*the weak productivity results partly from poor performance in research and the inability to transfer research results into goods and services for the market place. A significant share of publicly funded private R&D is done through direct grants. Alternative ways of supporting innovation capacities, such as tax incentives to boost private funding and the strategic use of public procurement should be developed.*'

A wide majority of Member States apply tax incentives to stimulate private research and development investment. This type of incentive has seen increasing interest since the outburst of the crisis. The major trend in recent years was to simplify the R&D schemes and enlarge their scope e.g. to encompass innovation activities. More than a third of Member States modified their R&D tax incentives in 2012-13. These changes usually increased the generosity of the existing schemes (Romania, Greece, Netherlands, Ireland and Czech Republic) and/or changed the eligibility criteria (France, Hungary, and Czech Republic). To increase generosity, some Member States increased the amounts directly payable in order to improve the cash flow position of companies. For example, Ireland doubled the amount of qualifying expenditure for calculating the R&D tax credit on a full volume basis (without

[20] European Commission, 2013a and European Commission, 2006

reference to the 2003 base year). Denmark quintupled the maximum cash payment for research and development costs.

As an example of broader scope of eligible activities, French R&D tax credit for small and medium enterprises is now also covering innovation activities. These activities are closer to the market and relate to prototypes and piloting of innovative products and services. This measure aims at stimulating innovation in French SMEs through facilitating commercialisation of research results.

It is important to regularly evaluate such tax incentives in order to ensure that they are cost-effective and they achieve their intended objectives. An expert group commissioned by the European Commission issued specific guidance in 2009 for conducting such evaluations[21]. In 2013, Ireland has launched a review of its R&D tax credit and invited interested parties to send in written submissions[22]. The review is expected to assess the impact of the scheme on private R&D investments of both large and small companies, and to assess its additionality and deadweight losses. It will also consider whether the design of the scheme is optimal and internationally competitive.

[21] European Commission Expert Group, 2009

[22] http://taxpolicy.gov.ie/wp-content/uploads/downloads/2013/04/Invitation-for-Submissions-for-Consultation-on-RD-Tax-Credit.pdf

Box 3. Stimulus package in Finland

In 2012 Finland received a country specific recommendation to continue efforts to diversify the business structure and broaden the innovation base. In response, the Government decided on tax solutions to support the growth opportunities and competitiveness of businesses. According to Finland's national reform programme 2013, **the temporary stimulus package of tax incentives** will apply from 2013 to 2015. The package consists of a new tax relief for R&D investments, accelerated depreciation and an incentive to invest in young small companies. The R&D incentive will support innovative product development. Industry investments will be encouraged with double depreciation right. In capital taxation, a 'business angel' tax incentive will be introduced, according to which an investor will receive a deduction for investment made in a young company employing less than 50 employees. The business angel tax incentive has been approved by the European Commission as compatible with the State Aid Framework.

5.2. Environmental/health taxation

Some Member States took action in environmental taxation, but overall progress remained limited.

In the field of environmental and health taxation, we distinguish two types of measures:

- A tax shift from high taxes on labour towards tax bases less detrimental to growth and jobs;
- Phasing out fossil fuel and other environmentally harmful subsidies (EHS) both to improve efficiency in the tax system and to help achieve greenhouse gas (GHG) emission target/environment policy objectives.

In 2012, 12 countries were issued CSRs referring to environmental taxation (Austria, Belgium, Czech Republic, Estonia, Spain, France, Hungary, Italy, Lithuania, Luxembourg, Latvia and Slovakia). Where measures have been taken, tax reforms appeared to be mostly for consolidation purposes. However, the tax instrument was not always fully exploited to achieve environmental objectives. Examples of (smart)/additional reforms would be addressing the gap between diesel and petrol tax rates, limiting the use of some harmful or inefficient reduced VAT on energy products or natural resources, reforming more ambitiously company car taxation, increasing taxes on pollution, etc. Therefore, in 2013, most of the CSRs have been maintained. Between 2012 and 2013, the main measures taken were increases of the excise duty on diesel, increases of the tax rates on energy and reforms of car taxation. The scope of action seems to be limited and at the margin (e.g. small increases of excise duties only correcting for inflation) while tax reforms were sometimes ill-designed (e.g. taxing profits of energy companies instead of consumption) or undermined by other tax reform giving the opposite signal (e.g. tax allowances granted to commuters encouraging the use of private cars instead of public transportation).

Almost half of the Member States have increased their excise duties on tobacco and alcohol. Increases in excises duties on tobacco and alcoholic beverages contribute to fiscal consolidation and to health protection. More than one third of the Member States have increased their excise duties on gas oil and other energy products. In many cases increases maintained the real value of prices over time and prevented government revenues from erosion (excises duties are often based on volume instead of prices and most Member States do not apply automatic indexation). Spain, Greece or Cyprus did increase their excise duties. Lithuania and Bulgaria increased their taxes on diesel after the expiration of the transitional periods granted upon their accession, to comply with the EU minimum. Similarly to those on tobacco and alcohol, excises duties on fuel offer the opportunity of introducing a behavioural change towards less energy consumption. Additional efforts could help the Member States to contribute to achieving the GHG emission targets. This is the particularly the case for Belgium or Luxembourg, where the transport sector was responsible for 64 % of non-ETS emissions in 2010.

Some Member States have introduced new national taxes related to energy. Spain has introduced a nuclear tax on the production of radioactive waste resulting from the generation of nuclear energy. Hungary and Italy now apply a surcharge on the company income tax to companies operating in the energy or public utility sectors. However, these latest measures do not provide direct incentives to reduce energy consumption and may have distortionary effects unlike, for example, energy consumption taxes.

Some Member States have taken measures to improve the design of their car taxation. The Netherlands reinforced the green element of their car taxation system. In Slovakia, the car registration fees for new cars have been changed and reflect the car engine power. Lithuania and Estonia remain the two Member States which do not have any car taxation.

The limited progress in the field of environmental taxation can be partially explained by competitiveness and social issues**.** Environmental taxes are considered to be regressive and might aggravate the poverty risk or social exclusion. This is for example the case of Latvia, Bulgaria or Slovakia where the prices paid for energy are already high for households' budgets. However, environmental taxation can be designed in a way to reduce social impacts and properly designed environmental taxes can also stimulate the development of new technologies, promote resource efficiency and the creation of 'green' jobs.

Member States would benefit from further coordinated action taken at the EU level to foster green economy while preventing harmful effects on competitiveness and households. In particular, the Commission proposal to revise the Energy Taxation Directive presented in April 2011 aims at promoting energy efficiency and consumption of environmentally friendly products and to reduce distortions of competition between the Member States[23]. It proposes to split the current energy tax into two components – a carbon related tax (per tCO2) along with an energy related tax (per GJ) in order to bring energy taxation in line with the EU's climate change commitments and at the same time to create incentives for companies to be more energy efficient. Some Member States have already introduced their own CO_2 taxes, however the multiplication of CO_2 taxes at a national level increases both risks of double taxation arising and high compliance costs for businesses operating at a EU-level. The revised ETD , if agreed and implemented, would promote growth and jobs by creating scope for Member States to achieve a growth-friendly tax-shift, i.e. by increasing taxation of energy products to reduce the tax burden on labour in line with the 2013 Annual Growth Survey priorities. Still for the Member States facing difficult socio-economic conditions transitional periods for reaching the levels of the new minima can be considered. In addition, Member States would have the possibility to apply tax exemption for all energy products used for heating by households.

[23] European Commission, 2011c

Box 4. Examples of how improve the efficiency of environmental taxation

In **Denmark** all energy products (coal, coal, mineral oils and natural gas) for heating purposes are taxed at the same energy tax rate per GJ(6,6 EUR/GJ in 2009 and it is increased by 1,8 % per year). Consistent and neutral taxation of all transport fuels is important with a view to providing proper incentives for the development of carbon- and energy efficient fuel technologies without favouring specific fuels or technologies.

In **the Netherlands**, the upper CO_2 limit for the exemption of the vehicle tax has been further reduced in 2013 and the taxation of vehicles with higher CO_2 emissions has increased. This new favourable tax treatment for emission-efficient cars has led to a large increase in their sales.

6. HOUSING TAXATION

While half of Member States made changes to their housing taxation, there seems to be important scope for reforming property taxation to make it more efficient and raise revenue in growth-friendly way. Recurrent property taxation often meets with political objections, but it can be an effective and fair way of raising public revenue.

Measures discussed in this part concern 1) deductibility of interests in personal income tax which affect household indebtedness and 2) recurrent property taxes and taxes on property transactions.

Nine countries (Austria, Czech Republic, Denmark, Hungary, Italy, Latvia, Lithuania, Slovak Republic, and the UK) were recommended in 2012 to reform and/or increase their property taxation. When measures were taken they were usually considered insufficient or not appropriate. Few Member States addressed the issue of outdated market values, for example Slovakia has not yet acted on the recommendation to align the property tax values with market values. Some countries raised their transaction taxes, for example Czech Republic, while focusing on recurrent property taxation is generally recommended and would be more efficient. All the references to property taxation remain following the 2013 Commission assessment, except for Hungary and Denmark. Two new recommendations in this area were issued to Germany and Sweden in 2013. In addition, with respect to mortgage-interest deductibility, four countries (France, the Netherlands, Spain, and Sweden) were recommended in 2012 to tackle the debt-bias in their personal income taxation. While measures taken by Spain and France were assessed sufficient, the recommendations remain in 2013 for the Netherlands and Sweden.

Measures in housing taxation try to address housing market instability. Housing taxation can include incentives to take on private debt to buy an immovable property by allowing deduction of the interest expenses on mortgages in personal income tax. This could encourage household indebtedness the more so if the tax incentive is capitalised in higher prices and lead to increased instability in the housing market, in particular in times of crisis. In many countries, the housing market remained in the adjustment phase with deleveraging efforts. It is therefore not surprising that the major changes in housing taxation focused on addressing the debt bias through reducing deductibility of mortgage interest. Spain (as from 2013) and Belgium (as from 2014) opted for a total removal of interest deductibility[24], while the Netherlands, Finland and Estonia have taken measures to gradually reduce it. In Finland, the deductible part of the interest for the owners will be reduced to 70 % (at the moment 80 %) by 2015. In Estonia, the ceiling for income tax deductibility was reduced by around 40 % as of 2012. Alternative regulatory measures were taken in Denmark with a view to improving the mortgage-credit system.

Around half of Member States modified their recurrent property taxes. Lithuania and Latvia have broadened their property tax base and the new rates are to be fixed by local authorities within a pre-defined range. Measures in some Member States aimed at making property taxation more progressive by focusing on higher-end properties to cushion the potential social impact. In June 2012, Slovenia introduced a tax on higher value property. Properties valued over 1 million EUR are subject to 0.5% rate (1% over 2 million EUR). This tax has been further amended in January 2013 to decrease the threshold to 500.000 EUR and introduce lower rates for residential property. In Ireland, a new Local Property tax has been introduced from July 2013 (with the rate of 0.18% for residential properties which values do not exceed EUR 1 million, and 0.25 % on the balance). UK adopted a new annual tax for properties with a taxable value over GBP 2 million owned by certain non-natural persons (i.e.

[24] In Belgium, the deductibility has been suppressed at the federal level but will be transferred to regions in the context of the partial regionalisation of PIT under the 6th reform of the State (25% of the personal income tax base will be transferred to the regions). To date, none of the three regions has clearly indicated its intentions.

company, partnership and collective investment scheme). In Latvia, the law provides for a possible reduction in property taxation for families with three or more children since 2013.

In many countries the values of properties are outdated. However, only a few Member States (Greece and Romania) have announced a revaluation of cadastral values. In Romania, the cadastral values might increase by around 16 % as since 2013 the local authorities are able to opt for a revaluation. Greek authorities may present a project of reform around mid-2013 and a major exercise of property revaluation has been recently completed in Portugal. An alternative to updating property values is to increase property tax rates, as done in Cyprus as of 1 January 2013. However, adjusting tax rates without updating property values implies that the tax burden is not aligned with the market value[25]. On the other hand, Estonia decreased the property taxation by abolishing the land tax for small and medium sized residential properties as of 1 January 2013.

A few Member States changed their property transaction taxes. Recurrent property taxation is generally considered more efficient than taxing property transactions and gearing the system towards more recurrent taxes could help improve the overall tax design. However, Finland and Czech Republic increased the property transfer taxes. In the UK, properties valued over GBP 2 million acquired by individuals and non-natural persons are subject to higher transaction tax rates (7 and 15% respectively) since March 2012. The decrease in transaction tax in the Netherlands by 4 percentage points has become permanent as from 2013.

[25] European Commission, 2012

7. IMPROVE TAX COMPLIANCE

The fight against tax fraud and tax evasion is stepping up across the EU. The extent of the challenge leaves scope for more action.

Tax compliance can be defined as the degree to which taxpayers comply (or fail to comply) with the tax rules of their countries, for example by declaring income, filing a return, and paying the tax due in a timely manner[26]. Evading taxes, fraud, and aggressive tax planning are examples of practices taxpayers can use to minimise their tax liability, often resulting in low compliance or non-compliance.

To what extent do taxpayers fail to comply with tax rules in a certain jurisdiction? Replying to this question is not easy. By definition, it is difficult to know about phenomena or practices which are meant to remain undetected, such as tax fraud. While generally countries produce statistics on how much revenues they collect, few attempt to estimate how much they lose. Certain tax administrations attempt to quantify the 'tax gap', the difference between the amounts of tax due according to the law and the revenues actually collected. A good practice in this respect comes from the UK, where the HM Revenue & Customs authority conducts and makes public estimates of the tax gap for the country each year. According the latest figures available, in the UK only, the tax gap amounted to GBP 32 billion in the financial year 2010-2011[27]. Almost one third of this was due to tax evasion and tax avoidance. There exist also estimates of the VAT gap. According to the most recent data available, in 2011 the VAT gap (for 26 EU MS) amounted to about EUR 193 billion[28].

Leaving aside quantification attempts, there is a solid consensus both in the EU and its Member States and within the international community that too many taxpayers (be it corporate of individuals) actually fail to comply with tax rules and that the extent of revenue losses is significant. The problem is surely not new - already Roman emperors were fighting tax dodgers - however, largely as a consequence of the latest economic crisis - which severely hit public budgets - it has grown in salience, visibility and urgency.

[26] http://www.oecd.org/ctp/glossaryoftaxterms.htm

[27] HM Revenue & Customs, 2012

[28] Center for Social and Economic Research and Central Planning Bureau, 2013

Within the context of the European Semester, the issue of tax compliance was first mentioned in the Annual Growth Survey (AGS) released in November 2011: *'(…) In several Member States, improving the efficiency of tax collection and tackling tax evasion can increase government revenue.'* The AGS provided the basis for the Country-Specific Recommendations (CSRs) the Council addressed to the Member States in July 2012, on proposals issued by the Commission. Ten Member States that is Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Italy, Malta, Lithuania, Poland and Slovakia Country Specific Recommendations were addressed CSRs on the need to improve tax compliance.

Why did these countries receive CSRs referring to tax compliance? Circumstances and challenges varied per country. For example, in the case of Bulgaria, the Staff Working Document (SWD) accompanying the CSRs explicitly referred to widespread shadow economy, undeclared work, high administrative and tax compliance costs. In the case of Slovakia, the SWD mentioned poor VAT collection, a fragmented revenue collection system, ineffective audit strategy and poor implementation of anti-fraud strategies as the main problems.

What can a country do to improve tax compliance? In detail, measures vary per country, but in general terms they could fit within two main categories: 'stick' measures, typically broader, deeper, better and increasing controls and verification activities and higher punishments for non-compliance; 'carrot' measures, that is provisions aimed at making it easier and more attractive to pay taxes. Enforcement measures can be considered as ex post tools to combat tax non-compliance, whereas incentive-oriented action aims at ex ante prevention, promoting voluntary compliance. Well-designed tax administration policies should include both preventive and corrective actions[29].

It emerges from the assessment of Member States' national reform programmes that a majority of countries which were addressed CSRs referring to tax compliance in 2012 opted for stick measures: they controlled more, and tried to do it better, often using risk-management approaches. A few examples: Bulgaria increased the use of third-party information to assess tax liabilities and made it compulsory for fiscal retail devices and integrated computerised sales management systems to be connected with the revenue

[29] Jensen & Wöhlbier, 2012

authority's information systems. The Czech Republic introduced the concept of unreliable VAT taxpayer to better target its verification efforts and mandated the use of verified bank accounts for business transactions. Estonia increased control over high-risk areas by amending its VAT law, focussing verification activities in the construction, catering and accommodation sectors; Italy performed more and more targeted tax audits and inspections, reinforcing cooperation between tax and social security authorities, and increased the traceability of transactions: the threshold for the use of cash was lowered to EUR 1000 and a new IT system to crosscheck data from banks and financial operators with income tax statements was made operational. Lithuania continued implementing its taxpayer compliance and tax collection assurance strategy, and mandated the use of cash registers in food markets; Malta focussed controls on the housing rental sector, considered as high-risk; Slovakia launched an anti-fraud action plan focused on VAT collection control and introduced an obligation to pay by electronic means above EUR 5,000.

Often, Member States accompanied enforcement measures with provisions to improve voluntary compliance, making it easier, faster and cheaper for taxpayers to pay taxes; or introducing tax incentives to comply. For instance, Bulgaria expanded the portfolio of electronic services offered to taxpayers; Italy introduced tutoring to assist taxpayers, especially small and micro businesses, in complying with tax rules, matching increased assistance with simpler procedures for tutored taxpayers. Also Lithuania increased assistance and services offered to taxpayers. Poland simplified VAT collection to facilitate the electronic submission of VAT returns.

In addition to enforcement and voluntary compliance measures, many Member States continued reorganising their tax administrations to make them more efficient, and effective. The Czech Republic carried forward a major reform of its revenue collection system, aimed at integrating the collection of tax and social security contribution as from 2014. Italy reshuffled its network of revenue authorities, merging the tax agency with the land agency and the customs agency with the administration of state monopolies. Malta continued with the implementation of a plan aimed at merging customs and tax collection under one single authority. It should be mentioned in this context that also Cyprus and Poland are planning significant reorganisations of their revenue authorities in the upcoming years.

Despite efforts made, improving tax compliance remains a main policy priority for the European Union. In July 2013, in line with the AGS and based on the Commission's assessment of National Reform Programmes, thirteen Member States were addressed CSRs which included a reference to the need to improve tax compliance: all the countries which received CSRs on the issue in 2012 except Cyprus and Estonia as well as Belgium, Latvia, Romania, Slovenia and Spain.

Member States continue facing different challenges and priorities. For instance, Belgium is recommended to improve tax compliance by closing existing loopholes; Hungary to fully implement and step up the already announced measures to improve tax compliance and reduce the administrative burden of paying taxes; Latvia to maintain efforts to improve tax compliance and combat the shadow economy and Malta to ensure concrete delivery of measures taken to increase tax compliance and fight tax evasion.

Box 5. Improve Tax Compliance: A Good Practice from Portugal

Portugal is one of the EU Member States implementing an Economic Adjustment Programme (EAP) agreed with the European Commission, the IMF and the World Bank. EAP cover fiscal structural reforms to improve tax compliance. As reported in the 7th Review of the EAP for Portugal (European Commission, 2013c), the country introduced a major reform of its VAT collection system as from 2013, when the electronic invoicing of VAT returns became compulsory for all business sectors and transactions. The new electronic system is a centralised VAT monitoring database managed by the tax authorities. Together with making the system operational, Portugal introduced a tax incentive for final consumers to ask for invoices from high-risk sectors (restaurants, hairdressers and vehicle repairers). The measure can be considered a well-balanced implementation of tax administration policy: on the one hand, it enhances the control and audit capacity of the administration; on the other hand, it promotes voluntary compliance and – by being fully electronic – should make VAT collection simpler and faster, also for taxpayers. In the 1st quarter of 2013, more than 900 million invoices were received by the tax authority, including from high-risk sectors. Other Member States are planning to modernise their VAT collection system. Estonia is planning to introduce an electronic receipt system for VAT collection. In the Czech Republic, VAT returns will be filed exclusively electronically from 2014.

8. CONCLUSIONS

The 2013 Annual Growth Survey highlighted that there was still scope to make tax systems 'more efficient, competitive and fairer'. Overall, we observe that some recent tax reforms tried to incorporate these considerations. These are 'good news'. However, further and stronger reforms seem necessary to stimulate growth and jobs, as challenges are complex and often changing.

The difficult fiscal positions of many Member States led to an overall increase of the tax rates. The 2013 Communication adopted by the Commission together with its proposals for country specific recommendations recalls that fiscal consolidation achieved through a '*well-targeted reduction of expenditure would be more supportive to growth in the long run than an increase in taxes. This is particularly the case in countries with already high levels of taxation*'. On 29th May 2013, the Commission actively reiterated its call for lowering in particular the tax burden on labour in the context of a tax shift. Recommendations to shift the tax burden away from labour towards taxes less detrimental to growth are kept for all but two Member States. Labour taxes remain very high and might impede the creation of growth and jobs. While indirect taxes (mostly VAT and to a much lesser extent environmental and property taxes) have increased in many Member States, this has not been accompanied by corresponding cuts in labour taxation to reduce the relatively high cost of labour.

The broadening of the tax base and the simplification of tax systems were also assessed by the Commission as insufficiently exploited: '*Greater efficiency and fairness of tax systems can be achieved by broadening the existing tax bases*'. Most tax systems contain too many tax exemptions, allowances, reduced rates and other specific regimes, known as 'tax expenditures'. The broadening of the tax base and the simplification of the tax system could not only lead to more revenues but also make paying taxes easier for citizens and businesses and managing them simpler for administrations.

Many Member States are using tax solutions to address negative effects of the crisis on competitiveness, notably the knock-on effects on private sector investment. Many Member States have modified or introduced tax measures to incentivise investment and entrepreneurial activity (e.g. R&D tax incentives, new incentives for start-ups, incentives for investing in unquoted shares, and more generous investment allowances and depreciations). The design of targeted tax incentives must be carried out with care to reduce the deadweight losses and to promote cost effectiveness. This is an area where further research and sharing of best practices is important.

Member States took action in environmental taxation but reforms seem limited in extent. Measures on green taxes appeared to be taken mostly for fiscal consolidation purposes and Member States did not seem very responsive to CSRs. The main measures taken were excise duties on diesel increases and reforms of car taxation, but overall progress remained limited. In its conclusions the Commission highlighted that taxing sources of pollution and greenhouse gas emissions '*can stimulate the development of new technologies, promote resource efficiency and the creation of 'green' jobs but both competitiveness and social impacts also need to be monitored so that future policy decisions can be taken on the basis of sound evidence of the impacts*'.

Regarding tax compliance, the fact that all Member States are making efforts to fight against tax fraud and tax evasion, improve the efficiency of tax administration, and reducing the shadow economy is surely 'good news'. However, tax compliance cannot be improved overnight: sustained efforts, a focus on implementation and more actions are needed. Member States may consider exploiting more voluntary compliance measures to nudge taxpayers to pay, make more use of EU-level instruments for anti-fraud cooperation, take joint actions to promote global tax governance and continue sharing experiences and best practices on how to tackle in the most efficient and effective manner the challenges they are facing.

In the context of the crisis, the 'good news' is that fairness aspects have increased in importance. This paper shows that the goal of a fairer tax system was influencing the reform agendas in many Member States. There seems to be a recognition that increasing taxes should be done in a growth-friendly and fair way, in particular not at the expense of the poor. Notwithstanding the general tendency to increase taxes, this paper highlights efforts made in parallel to cushion the impact on low income earners, which is welcome from both the equity and the efficiency point of view. Fairness concerns are integrated into some of the increases in personal income tax by channelling the increases toward higher income earners. This not only applies to reform on labour taxation but also to housing tax reforms, tax base broadening and to the fight against fraud and evasion. The Commission emphasised that: '*increases in recurrent property taxation met with political objections in several Member States but can be designed to be effective and fair ways of raising public revenue*'. For example some Member States have recently made property taxation more progressive by focusing on higher-end properties to cushion the social impact of this measure. Other Member States have made efforts to relieve the tax burden on low income earners or targeted ‘vulnerable’ groups trying to compensate for an increase in consumption and excise duties. Additional gains in the efficiency and equity of tax systems were also achieved by broadening the existing tax bases as tax expenditures are often not justified and can be inefficient for achieving social, environmental or economic objectives. Finally, the political momentum behind the fight against tax fraud and tax evasion also finds its rationale in increasing fairness of the taxation system as taxpayers who do not pay their fair share of taxes are unfairly advantaged over others.

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