FRANK AMEYAW

Construction of Personal Income Tax in the European Union. A case study of the Personal Income Tax of five Member States

Abstract

The aim of this article is to spell out and examine the differences in personal incomet Tax construction in the European Union, and also to review the importance of Personal income tax in the tax revenue of Member States. The justification for this stems from the fact that, the European Union countries are well developed and have long tradition of market economy and a better system of taxation. The tax system in these counties is a sort of model that other countries are trying to follow. Five of the Member States have been chosen in this paper as a case study. These countries include France, Greece, Germany, the Netherlands and the United Kingdom.

In this paper, I present the general characteristics of personal income tax, which is followed by the construction of PIT in the European Union countries with special emphasis on the chosen countries. Special attention has been paid here to the subject and object of taxes, the sources of revenue, the cost of earning revenue and tax rates and brackets, as well as tax exemptions and reliefs.

Considering the fact that personal income tax plays a very significant role in the tax revenue of Member States, an indebt analysis of tax composition has been carried out in a bid to show its role. The paper closes with a description of the differences in tax construction of the European Union.

1. Personal Income Tax and its characteristics

Personal income tax is a direct tax, which is imposed on personal income. It is that type of tax whose base is personal income, usually reduced by various tax reducing adjustments[1]. Personal Income Tax is characterized by the following features;

- Schedular or global form; In a schedular form of Personal Income tax, each of the various categories of income, or (partial) incomes, such as salaries, dividends or business profits, flowing to the same taxpayer, is subjected to a separate tax rate. In other words, his overall net income is taxed in a compartmentalized way. The schedular system of PIT ideally consists of a coordinated set of separate taxes on various types of income. On the other hand, in a global form of PIT, all (partial) incomes, from whatever source derived, accruing to the same taxpayer, are treated as a single mass of income and subject to a single rate formula. Contemporary Personal Income Tax is more characterized by the global form of taxation due to its advantages over the schedular system.
- It is a personal tax which is imposed on a natural person.
- As a rule, it is a tax imposed on income that is earned, but can also be applied on consumption tax.
- It belongs to the group of direct taxes since according to tradition PIT is considered to be a tax that cannot be shifted, although this view is not entirely justified when it comes to contemporary techniques in taxation.
- It is a tax imposed on the total income of the taxpayer from different sources of income after the consideration of deductions.
- It is an instrument used in lessening the disturbances of an economy.
- It can be applied in an advanced economic-financial system[2].
- In the construction of Personal Income Tax, the individual circumstances such as exemptions, reliefs etc are all taken into account.

1.1 The subject and object of tax

In the European Union when it comes to **the subject of tax**, of great importance is the principle of residence. Almost all countries apply the residence principles. Residents are taxed on all their income, independently of the country

[1] A. Błaszczyński, J. Stygares, *Glossary of Economic Terms*, Krakow 1995, p. 222.

[2] A. Komar, *Public Finance in the Market Economy*, Warsaw 1996, p. 145.

where income is earned. Non-residents are taxed on their earnings in their country. However, different criteria are applied by countries to determine if a person is a resident in that country. Most of the countries determine the residence of a person in the country where he/she possesses his/her habitual home or where he or she resides for a period of at least six months during the fiscal year. Also taken into account is the place of where the center of economic interest is situated, or where the partner and children reside.

Of great importance is whether or not countries aggregate for personal income tax purposes the earned income of spouses where both are gainfully employed. In countries using joint taxation, tax liability is calculated by applying the appropriate rate schedule to the aggregated taxable earned incomes of the spouse; under individual taxation tax, liability is calculated by applying the appropriate rate schedule to the taxable earned income of each spouse.

The object of tax embraces all income of individuals. Tax is generally levied on the aggregate net income from all categories of income as reduced by the deductible items and allowances. The net income of each category is the difference between the sum of receipts (both in cash and in kind) and any income –connected expenses.

Taxable income includes most often income from employment, business, trade or business etc. Certain income sources are generally exclude from total income to arrive at the income subject to tax which may be defined as all sources of income liable to tax without taking account of tax allowances. Taxable income, the base to which the rate schedule applies, represents income subject to tax minus tax allowances[3].

The determination of the items to be included in the tax base is a central question in all income tax systems. Here, special attention is given to the **global** and **schedular** systems. In a global system, all (partial) incomes, from whatever source derived, accruing to the same taxpayer, are treated as a single mass of income and subjected to a single rate formula. On the other hand, in a schedular income tax system, each of the various categories of income, or partial incomes, such as salaries, dividends or business profits, flowing to the same taxpayer, is subject to a separate tax rate. In other words, his overall net income is taxed in a compartmentalized way[4]. In practice, the distinction between the two is invariable blurred. Normally global system may have schedule elements, particular with respect to limitations on the ability to use deductions incurred in one type of activity against income from another type of activity.

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[3] K. Messere, *Tax Policy in OECD countries*, Amsterdam 1993, p. 223.

[4] S. R. F. Plasschaet, Schedular, *Global and Dualistics Patterns of Income Taxation*, IBFD, Amsterdam 1988, p. 17.

Similarly, nominally schedule systems may have a global character in practice. The inclusion of particular items in the tax base is influenced to some extent by the basic underlying approach to tax base definition.

Sources of revenue as well as deductible items are treated differently in each EU country.

1.2. Taxable base

1.2.1. Sources of revenue

Personal income tax in the European Union shows a lot of similarities. First of all, it concerns how the concept of income is formulated in the legislation. As a rule, the general idea of income is applied showing the sources of revenue. The sources of revenue are quite different in particular countries. The reason for these differences is partly due to the fact that the sources of some of the income are treated different (there is the application of specific tax regulation; for example with regards to income from sales or speculative income).

Specific tax regulation also concerns methods of determining the amount of income and the amount of tax. A lot of such tax regulations can be found in the tax laws of EU countries. For instance, in France, interest from revenue can be subject to tax from source or within the range of general income. It is important to note that specific regulations leads to the erosion of the taxable base. Almost all the member countries include employment income (i.e., wages and salaries), business income, rent income and public pensions as income subject to tax. Some of the items included in the taxable base are:

- capital gains;
- business and professional income;
- director's remuneration;
- benefit in kind;
- prizes and awards.

1.2.2. Cost of earning revenue

The term **cost** can be defined from different point of view depending on the field of study. In economics for example, cost is considered to be the value of all resources used to produce a good, i.e. production cost are based on the concept of opportunity cost[5].

[5] B. R. Schiller, *The Economy today*, New York, 1989, p. 502.

From the accounting point of view, cost can be defined as any intentional and economically justified use of means of production and foreign services, which is connected with the business units' activities and priced in the currency units. The cost also includes the reward for the use of human labour in a form of wages[6].

In taxation, however, the definition of cost takes a different form from what we have seen above. Tax cost is therefore considered to be all expenses incurred with the aim of earning revenue.

Cost in PIT sometimes possesses problems and controversies. These problems are connected with implementation. The concept of taxable income implies that there are certain justifiable costs that may be deducted from actual gross income. In case of PIT, adjustments are usually made to reflect the expenses incurred in earning income. For instance, expenditure for childcare is a tax-deduction expense. In some instances, offices used can be considered an "input" in the production of income and its cost is also deductible. Needless to say, the introduction of such "reasonable" deductions from gross income tax can open a Pandora's box of difficulties for the administration of the income tax. For example, deductions for business expenses incurred in entertaining clients may result in abuses. If such expenses are not really essential to a business, the result is unintended governmental subsidy of expenditure on luxury entertainment goods. It is therefore very difficult to determine what constitute reasonable expenditure deductions (i.e., cost) in the course of earning income[7].

In literature of most EU books, cost of earning revenue is expressed as **expenditure deductions.**

In the European Union tax legislation, in determining the amount of income, the cost of earning revenue is deducted or any other factors reducing income is taken into consideration. In connection with this, different methods of cost deductions are applied depending on the kind of revenue source.

Income from one's own activity is determined differently from the one from hired labour, so is income from the possession of assets. For instance, in roman countries and in Greece small and medium enterprises are taxed using average rate. The characteristics features of income tax of these countries are that, different kinds of deductions are taken into consideration. Also taken into account is that amount exempted from tax. Most of these countries also deduct social insurance security[8].

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[6] L. Kleczkowski, *Potrącanie kosztów uzyskania przychodów*, „Przegląd Podatkowy" 2000, No. 5 p. 33.

[7] D. N. Hyman, *The economies of governmental activities*, New York, 1973, p. 200–201.

[8] A. Komar, *Systemy Podatkowe krajów Unii Europejskiej*, Warszawa, 1996, p. 34–35 .

Some of the common deductible items that are considered before arriving at the taxable income are listed below.

- alimony;
- medical expenses;
- donations /Gifts;
- childcare;
- mortgage interest.

1.2.3. Chargeable income

A host of items are included in the calculation of taxable income. Normally, income arising from all sources, including non-business income as well as business or trading income is included in the base. Expenditure deductions, and personal deductions are then considered and deducted before arriving at the chargeable income

1.3. Tax rates and brackets

In all European countries, central government levies a tax on personal income. Although the rate structure of these income taxes shows wide variation, the fundamental structure of personal income systems imposed by central governments is very similar in most European countries.

Personal income tax rates at central government level are progressive in all countries of this study. Under a progressive system, income taxable is divided into brackets. All of the taxable income within a bracket is taxed at the same rate. The rate applied to the income in successive increases. The result is a progressive tax: as the total income rises, a growing share of it goes-at least in principle-in tax, although there are important differences in maximum and minimum rates and number of brackets.

None of the countries uses the straight – line method of taxation. Moreover, the tax-free amounts of income are usually lower than income considered as the minimum existence level. Most of the countries make correction of tax burden in accordance with the rate of inflation. Examples of such countries are Greece, Holland, Ireland Luxembourg Sweden and the United Kingdom.

In some European countries workers have to pay local, regional, provincial or state income taxes on top of the central government income tax. This is the case especially in Belgium, Denmark, and Sweden. In some of them, these taxes are quite significant: for instance in Sweden and Denmark, rates are around 31%.

In local and regional taxes, rates are not progressive, most countries apply flat rates, and these rates vary from municipality to municipality.

Below is a presentation of the tax rates, as they exist in five of the chosen Member States from the period 1998 to 2001. The table indicates the changes that have taken place in the rate structures between the periods 1998 to 2001.

Table 1. Personal income tax rates in the 5 chosen Member States (%), 1998–2001

Country	Number of brackets (1)				First positive rate (%)				Maximum rate (%)			
					To the nearest percentage point							
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001
France	7	7	7	7	11	11	10	8	54	54	54	53
Germany	4	4	4	4	26	24	23	20	53	53	51	49
Greece	6	6	6	6	5	5	5	5	45	45	45	43
Netherlands	3	4	4	4	36	36	34	32	60	60	60	52
UK	3	3	3	3	20	20	10	10	40	40	40	40

(1) Zero rate included as a bracket.

Source: Own elaboration from: European Tax Handbook, 1998–2001. Amsterdam, Institut der deutschen Wirtschaft Koeln, Zahlen zur wirtschaftlichen Entwicklung der Bundesrepublik Deutschland 2000, Bundesministerium der Finanzen (ed.), Monatsbericht des Bundesministeriums der Finanzen, no. 10/2001, and Bunesministerium der Finanzen (ed.), Die wichtigsten Steuern im internationlen Verleich, Berlin 2000.

The first four columns of the table indicate that the number of brackets over the period varies significantly from country to country. The maximum number of brackets was 7, and this was applied in France and the minimum was 3 in the U.K. But it should be noted that the number of brackets in the Netherlands were also 3 in 1998. With the exception of the Netherlands, the rest of the countries had constant brackets throughout the period.

The first positive rates vary considerable between countries. The period experienced decreases almost in all the countries with exception of Greece who recorded a constant rate of 5%.

The main features brought out by the table are that maximum rates have almost invariable declined, with the exception of the UK whose brackets remain unchanged.

The Netherlands had the highest rate during the period 1998–2000 with a constant percentage of 60%. France came next after the Netherlands with a constant rate of 54% during the same period. However, in 2001, France recorded the highest mark of 53% United Kingdom was the only Member States among the lot to maintain constant maximum rates throughout the period.

An indebt look will now be taken at the tax rates in these chosen countries.

United Kingdom

The tax rates as they exist in the United Kingdom are set out in table 2 below.

Table 2. Tax rates in the United Kingdom in 2001

Type of rate	Taxable income (EUR)	Rate (%)
Lower rate	Up to 2351.85	10
Basic rate	2351.85 – 43942.44	22
Higher rate	Over 43942.44	40

Source: European tax handbook 2001.

The rate structure in the United Kingdom consists of personal allowances and tax rate. The first EUR 2351.85 of taxable income is the income above any personal allowance. In all, there are three rates raging from 10% to 40%. Taxable income is subject to different tax rates depending upon the 'tax band' that income falls within.

Netherlands

The income tax law provides for a four-bracket rate system which comprises both income tax and national social security. The tax rates are applied to taxable income after the deduction of the personal allowances. Table 3 below illustrates the tax rates

Table3. Tax rates in the Netherlands in 2001

Up to Taxable income (EUR)	Rate on excess (%)
Up to 14869.92	32.35
14869.92 – 27009.00	37.60
27009.00 – 46309.20	42
Over 46309.20	52

Source: European tax handbook 2001.

The 32.35% and 37.60% rates include, respectively, 2.95% and 8.2% income tax and both brackets include 29.4% national social security contributions. For individuals of 65 years of age or more, the first two brackets are taxed at 14.45% and 19.7%, respectively (both rates include 11.5% national social security contributions). The 42% and 52% rates do not include any national social security contributions.

Germany

Individual income tax is imposed at progressive rates under complex tables. The tax schedule comprises four tax brackets. Table 4(a) and 4(b) illustrate the taxable incomes and rates for **single taxpayers** and **married couples**.

Table 4(a). Tax rates in Germany for single taxpayers in 2001

Taxable income (EUR)		Marginal rate (%)
Up to	7205.63	0
7206.15	9248.72	19.96–23.02
9249.27	54997.93	23.02–48.50
Over	54997.93	48.50

Table 4(b). Tax rates in 2001, Jointly assessed spouse taxpayers

Taxable income (EUR)		Marginal rate (%)
Up to	14411.78	0
14412.30-	18498.02	19.96–23.02
18498.54 –	109996.78	23.02–48.50
Over	109996.78	48.50

Source: European tax handbook 2001.

Taxable income is calculated by subtracting several personal allowances (e.g. job and education expenses, allowances for children) from total gross income. A so-called **Grundfreibetrag** (basic tax allowance) is tax exempt for all taxpayers. For single taxpayers it amounts to EUR 7205.63 and for marriage couples to EUR 14411.78. The main difference between the single taxpayers and the married couples is that, the single couples are subject to taxed using the linear-progressive rate and the proportional rate depending on the tax bands, whilst Spouses are taxed jointly under a **splitting system** where individual taxable incomes are summed up and divided by two. This amount is subjected to the tax schedule; the resulting tax payable is doubled to calculate the married couple's total tax liabilities.

France

The French tax rate is also very complex in its computation. The individual income tax schedule contains seven rate brackets. See Table 5.

Table 5. Tax rates in France in 2001

Taxable income per share (EUR)		Rate (%)
Up to	4055.17	0
4055.17 -	7976.18	8.25
7976.18-	14038.11	21.75
14038.11 -	22731.82	31.75
22731.82 -	36987.42	41.75
36987.42 -	45612.70	47.25
Over	45612.70	53.25

Source: European tax handbook 2001.

From the gross taxable income, the taxpayer is entitled to deduct certain expenses such as alimony capital investment allowances or losses in order to calculate net taxable income (revenue net imposable). Once the net taxable income has been determined, the progressive tax thereon is computed according to the family coefficient system and the tax rate schedule for the relevant year.

The family-coefficient system (quotient familial) takes into account the taxpayer's marital status and the number of dependent children. It effectively limits the effect of the progression of tax rates. Basically, the net taxable income is divided by a coefficient corresponding to the family situation of the taxpayer in order to arrive at an amount of income per family share. The income tax is computed on this income per family share and the result is multiplied by the same coefficient in order to obtain the gross tax payable.

Greece

The schedule comprises six income brackets with rates ranging from 0 to 43 per cent. Table 6 presents the tax rates with their corresponding brackets in Greece

Table 6. Tax rates in Greece in 2001

Taxable income (EUR)		Rate (%)
Up to	6162.88	0
6162.88 –	8352.16	5
8352.16 –	13358.80	15
13358.80 –	23357.30	30
23357.30 –	50027.90	40
Over	50027.90	42.5

Source: European Tax Handbook.

Both employees and the self-employed pay the Personal Income Tax that applies a progressive schedule to all earned income, net of social security contributions and of deductible expenses. For individuals with employment income, the first bracket is increased by EUR 880.41 and the second bracket is reduced by the same amount[9].

1.4. Tax reliefs and exemptions

When it comes to **tax reliefs,** they are provided in a variety of ways in the European Union. The main distinction of relief is between tax allowances and tax credits. A tax allowance is a certain amount of income, which is exempted from tax. The alternative system is to tax all income, and give taxpayers a reduction in their tax bill in the form of tax credit.

Tax allowances are one of the most frequently employed ways of implementing standard tax reliefs. Allowances take the form of deduction from income subject to tax, so that under progressive income tax schedules their value increases as income increases. Tax credits are lump-sum deduction from payable tax, so the value of tax is independent of the taxpayer's income level.

Most European countries apply tax allowances. Tax credits are applied in Austria, Denmark, Portugal and Italy, although some of them apply both kinds of tax relief. However, since 1-1-2000, Ireland has applied tax credits instead of tax allowances.

The most generalized method of giving relief is allowances for actual costs of certain work-related expenses. Austria, Denmark, Luxembourg and Sweden apply this method if actual cost exceeds a minimal deduction.

Employees Social Security contributions are deductible from the tax base in almost every European Member State, with the exception of the UK.

[9] J. Kesti, *European Tax Handbook*, IBFD, Amsterdam, 2001 p. 271.

In Netherlands and Denmark, employees Social Security contribution are included in Personal Income tax, and in most countries, these contributions are deductible up to a limit[10].

Despite the on-going process of tax harmonization, the degree of relief application as well as its scope is quite different in Member Countries when it comes to the family situation of the taxpayer. The tendency in some of the advanced economies is the abolition of joint taxation of married couples as well as those tax reliefs connected with the maintaining of children by the taxpayer. Most countries decided to undertake series of changes in taxation, but some of these countries still apply different elements of family reliefs. A typical example of such a country is France, where tax burden, to a greater extent depends on the family situation of the taxpayer. Some of the Member states remain neutral when it comes to this issue of family relief; among them are Denmark, Finland and the United Kingdom. On the other hand, countries like Austria, Belgium, Greece, Italy Spain, Germany applies reliefs connected with the possession of children[11].

2. The importance of Personal Income Tax

In general the role of personal income in a country depends to a large on how developed that country is. Usually, Personal income tax in developed economies play a very significant role than the less developed economies. This is because, such developed economies have high standard of living with high per capita income. The economy of such countries enables the government to impose high tax rate on the people, and still leave a high proportion of their income for consumption and other purposes.

Apart from the fact that incomes of citizens of such economies are higher, they also possess the necessary administrative network to help in checking tax evasion, which characterized most developing countries.

In addition, severe penalties for tax offenders in these countries help in minimizing tax malpractices and evasion, thus raising the contribution of PIT to budget revenue.

On the other hand, in less developed economies where per capita income is low the possibility of imposing high rate of tax is very minimal. Personal income tax therefore plays a very minimal role in such economies. Table 7 below presents the share of individual tax revenue in the chosen countries of the EU, with special emphasis on PIT.

[10] Dr. A. M. Serrano, B. Patterson, *Tax coordination*..., p. 40.

[11] W. Ziółkowska, *Finanse Publiczne. Teorii i zastosowania*, Poznań 2000, p. 124.

Table 7. The share of individual tax revenue in total tax revenue in five EU countries 1996-1999

	France				Germany				Greece				Nertherlands				United kingdom			
	‘96’	‘97’	‘98’	‘99’	‘96’	‘97’	‘98’	‘99’	‘96’	‘97’	‘98’	‘99’	‘96’	‘97’	‘98’	‘99’	‘96’	‘97’	‘98’	‘99’
Personal Income tax	11.8	12.4	17.4	17.6	24.6	24.1	25	25.1	12.4	12.2	13.8	14.2	17.5	15.6	16.2	15.2	26.9	24.6	27.1	28.5
Corporate income tax	5.2	5.8	6.2	6.4	3.8	4.1	4.4	4.8	6.3	6.4	6.5	8.7	9.8	10.5	10.6	10.1	10.7	13.3	10.9	10.4
Taxes on property	6.6	7.4	7.2	7	3	3.8	2.4	2.5	3.4	3.8	3.7	2.7	3.5	4.7	4.9	5.1	10.2	10.2	11.4	10.9
Taxes on goods and services	28.1	27.5	27.1	26.6	28.1	27.9	27.1	28	43.8	41	37.8	36.7	38.3	27.8	37	38	35.2	34.5	32.5	32.8
Social security	41.9	40.7	36.1	36.1	40.3	41.2	40.5	39.3	30.6	32.7	31.4	30.9	39.7	41.1	39.7	40	17.6	17.3	17.6	17.1

Source: OECD database 1996-1999, Unweighted Average.

From Table 7 it can be seen that with the exception of the UK social security was the highest percentage recorded over the period in terms of tax revenue contribution. The contribution of **Social security**, which is a payment by employers and employees to cover the cost of certain benefits like, pension, unemployment benefit and sickness benefit in the future, is very significant in the tax revenue of these counties since its contribution was very high. It is significant to know that, there are very large employers' Social Security Contributions. It is possible to consider these as part of employees' income; but they have no tax implications for the employees themselves. From the point of view of employers, however, they can be considered as taxes on labour, adding to non-wage labour costs. They also, of course, contribute to total tax revenues[12].

In terms of individual countries contribution to social security, Germany recorded the highest percentage over the period.

It is evident that taxes on goods and services are also significant in the tax revenue, (with VAT accounting for about 60% of total tax revenue on goods and services). The performance of taxes on goods and services in all the chosen countries was very impressive with Greece recording an average mark of almost 40%, which was the highest percentage over the period. This source has become a very fast growing source of revenue to Member States. One of the reasons for this state of affairs is due to the important role of VAT, which now produces a large percentage share when it comes to taxes from goods and services. VAT accounts for about 60 per cent of total tax revenues on goods and services in the EU area. The fast growing of goods and services taxes, especially VAT has overshadowed the importance of Personal Income Tax in the tax revenue of Member States.

The heavy reliance on goods and services tax, not withstanding some administrative issues they raise, has several advantages: firstly, it is very difficult to avoid this tax once a good is purchased.

They are also relatively neutral towards saving and investment decisions, and finally, they provide a symmetric treatment of labor, transfer and capital income, thus creating fewer disincentives to work and meeting the criteria for horizontal equity than income tax (PIT).

Personal income tax, the main tax under discussion comes next after social security and taxes on goods and services. The table shows vividly that the UK contributed the highest percentage over the period, with Greece recording the least mark.

Corporate income tax which comes after PIT recorded an average of 11.3% in the UK. This makes the UK the highest during the period. The Netherlands recorded an average of 10.2% with Greece, France and Germany recording average marks of 6.9%, 5.9% and 4.2% in that order.

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12 B. Patterson, dr. A. M. Serrano, *Tax co-ordination in the European Union*, Luxembourg 2000, p. 65.

Taxes on property accounted for the lowest percentage share of revenue, with the UK still recording the highest average mark of 10.6%. France experienced a steady and upward trend during the period with an average score of 7%. France was followed by the Netherlands and Greece who also had average marks of 5.5% and 3.4% respectively. The lowest marks among the countries were recorded in Germany where an average of 2.9% was obtained.

Generally, PIT is a very reliable and important tax to the European Union. One of the major reasons is that, most of the member States have advanced economies, which implies incomes of citizens of these economies are very high, allowing for the imposition of high taxes. Moreover, unlike the least developed economies, members of the European Union possess the much needed technical know how and a well- trained tax administration which help to reduce tax evasion.

Despite this important role by PIT, it is still overshadowed by goods and services taxes. One of the major problems facing PIT is that it is weakened by a large set of tax allowances and tax credits, which mostly benefit high-income group. It can be concluded that PIT in the European Union PIT plays a very important role in tax revenue, despite being overshadowed by taxes on goods and services and social security. As long as the economies of Member States remain strong, PIT will still continue to play its role as an important source of tax revenue.

Having seen the importance of PIT in each individual country in this study, the chapter will be concluded by taking a brief look at some of the differences in PIT construction of the chosen countries. On the issue of **tax subject,** all the countries apply the resident principles. Under the PIT Law in the EU, residents are subject to tax on their **worldwide** income, but there are some variations in the unit of taxation. The Netherlands, U.K for personal income tax purposes, **separate** the earned income of spouses where both are gainfully employed. France and Greece use **joint** taxation and in Germany, there is a possibility of election between separate or joint taxation. In countries using joint taxation, tax liability is calculated by applying the appropriate rate schedule to the aggregated taxable earned income of spouses. Under the separate taxation, liability is calculated by applying the appropriate rate schedule rate to the taxable earned income of each spouse separately.

All the five countries tax employment income, however, apart from Germany the rest of the five chosen countries treat Social transfer unemployment as income source subject to tax. Moreover social transfer for sickness are also included only in France and Greece, however, some components of this social transfer for sickness are subject to tax in the U.K and others not. Social transfers regarding non-monetary payments are subject to tax fully in all the countries with the exception of the Netherlands.

The shape of the source of revenue for each country takes different dimensions. The general EU trend has been to move away from **schedular** taxation (under which each source of income is subject to a separate treatment of rate) and towards a **global** taxation (where one schedule is applied). With regards to the chosen countries in this study, the UK and the Netherlands are the only countries applying schedular taxation the rest apply global taxation.

In terms of **reliefs,** in France, tax burden to a greater extent depends on the family situation of the taxpayer. For example, children are taken into account. Germany like France also takes into consideration the family situation, but the only difference is that children are not taken into account in Germany. In addition, apart from France and Germany who have the splitting systems the rest have individualized tax system. The UK, for instance remains neutral in terms of issues concerning family relief. In Greece income tax credits are granted for children.

Of special importance is the exclusion of certain social transfer from taxation. Among the 5 countries, unemployment is **exempted** from taxation only in Germany. Social transfer for sick people as well as for invalidity people are also exempted from taxes only in Germany and the Netherlands. When it comes to non-monetary payments apart from the Netherlands who exempts some components of these payment, the rest of the countries exempt totally all non-monetary payments[13].

In the final analysis it can be said that the construction of PIT in the chosen countries and the EU as a whole takes a similar form with only some slight differences.

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