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VALUE ADDED TAX IN EUROPEAN UNION COUNTRIES – COMPARATIVE ANALYSIS

Abstract. The tax system of the European Union is not coherent, since it consists of twenty five national tax systems of the individual member states. The extraordinary importance of adaptation measures with regard to VAT results from at least a few reasons. Reason number one is the fact that it constitutes an efficient, dependable and very stable source of income for the national budgets in all EU member states. The second reason is the key role of this tax as a primary instrument of ensuring proper conditions for the free movement of goods, services and capital on the European Common Market based on rules of fair competition. The third reason are the manifold non-fiscal effects this tax brings about both for business entities and natural persons/households.

The present work is devoted to the function of VAT in European Union countries. A detailed analysis of the rate structure and the VAT objective scope, as well as the importance of this tax for the budget income of the Community states has been performed.

Key words: European Union, indirect taxes, VAT.

1. INTRODUCTION

The tax system of the European Union is not coherent, since it consists of twenty five national tax systems of the individual member states.

The process of standardizing the European Union tax law is not aimed at eliminating the national law systems. In accordance with the Community's general tax policy assumptions, it's function boils down to supporting the standardization process of member country tax systems and their coordination in order to assure the implementation of provisions contained in the Treaty establishing the European Union (European Commission 2000, p. 5). A distinctive feature of the directive system is the fact that it obliges the member states solely as to the aim that must be reached, leaving in numerous cases the concrete legislative solutions up to the member states on the basis of their internal legislation. The scope of harmonization is restricted only to areas that are important for the integration processes (Brzeziński, Głuchowski, Kosikowski 1998, p. 15).

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The extraordinary importance of adaptation measures with regard to VAT results from at least a few reasons. Reason number one is the fact that it constitutes an efficient, dependable and very stable source of income for the national budgets in all EU member states. The second reason is the key role of this tax as a primary instrument of ensuring proper conditions for the free movement of goods, services and capital on the European Common Market based on rules of fair competition. The third reason are the manifold non-fiscal effects this tax brings about both for business entities and natural persons/households.

The present work is devoted to the function of VAT in European Union countries. A detailed analysis of the rate structure and the VAT objective scope, as well as the importance of this tax for the budget income of the Community states will be performed.

2. GENERAL CHARACTERISTICS OF VAT

VAT (*Value Added Tax*) is a net multi-stage sales tax that taxes all participants of the business trade. All stages of the production and distribution cycle are subject to this tax. In the legal sense, each sales stage is subject to the tax, in the economic sense, however, only the final consumer is taxed. The idea of this tax is based on the fact that each time a given product is passed on to another agent, the agent adds the so-called added value to the product from which each agent should pay a tax (Krajewska 2004, p. 98). Thanks to its construction, the tax is not charged from another tax, but it is regained at each sales stage, providing the commodity or service has been sold (Kuzińska 2002, p. 18). The tax is always included in the price of the commodity or service and is added on the net price. Since the harmonization of the European Communities tax systems, the VAT is established indirectly by means of the *subtraction method* (Messere 1993, pp. 375–376), as the difference between the tax due from the sale and the tax charged by the suppliers on the invoices made out for the delivered goods, raw materials, services, as well as fixed assets.

The construction of this tax does not establish the tax capacity; this capacity is established based on certain facts or economic occurrences which lead to the obligation to pay VAT.

Generally, a uniform zero-rate with regard to export is applied, which makes it possible to compare prices internationally and impose the tax on both national and imported products. The refund of the whole tax to exporters that was paid during the pre-export stages, as well as imposing the tax on importers to the amount equal to charges applicable in a given country leads to a situation where the VAT does not influence the trade turnover with foreign countries and may even stimulate the export (Grzelak 1991, p. 41). It is also worth noting that due to its fairly advanced economic neutrality, the value added tax does not deform the production factor substitution. Due to its lack of accumulation it does not motivate production concentration.

An additional distinctive feature of the value added tax is the substantial uniformity of tax rates within a given country. Even if reduced rates are used, the majority of goods is taxed by means of the basic rate. The significant uniformity of VAT rates and its prevalence result in a situation where it cannot be perceived as an instrument distorting the income of business entities. The effect of such elements of the tax construction as rate and tax base is therefore not distorted, either. A large number of sales tax rates, on the other hand, results in price distortion. The tax not only becomes a tool for national income redistribution, but also a regulator for society's purchasing power. Under conditions of market competition, where possibilities of tax transfer are restricted, diverse rates may influence the profit results, thus they can also influence the investment trends of business entities (Kaleta 1988) Unfavorable from the companies' viewpoint are frequent sales tax rate changes. Since sales taxes are price-determining, their change influences alterations of the demand structure (indirectly also the supply structure). Certain areas may also be exempted from VAT (subjectively or objectively). It should be noted that objective exemptions from VAT, typically being a subjective tax, negatively influence economic mechanisms and often lead to abuse (Famulska 1998).

From the consumer viewpoint, a uniform sales tax rate does not always lead to a proportional burden on consumer income (indirect, through expenses). This is due to the fact that in balanced economies there is a tendency of expenses share decrease as the income grows. Therefore, as the the income grows, VAT becomes a regressive burden (Grabowiecki 1996, p. 69).

3. HARMONIZATION OF THE EU SYSTEM WITH REGARD TO VALUE ADDED TAX

The process of bringing closer the tax systems of EU countries is difficult and lengthy. This is proven by the fact that despite harmonizing indirect taxes for many years there still has not been one (Community-wide) solution developed in this area.

The Sixth Council Directive dated May 17, 1977 was of crucial importance for creating a unified VAT structure in EU countries. The directive regulated the basic elements of this tax: subject of taxation, taxable acts, tax base, arising of the tax obligation, mechanism for deducting the input from the output tax, exemptions from the tax burden, taxation of small companies, travel agencies and agriculture within the VAT system. Successive directives raised the issues of tax amount, number of rates, list of commodities exempted from tax or subject to the zero-rate.

Of crucial importance with regard to VAT rates in countries belonging to the Community were the European Council directives from 1992[1], where minimal VAT rates were established[2]. When preparing this directive, American experiences were used regarding the function of sales tax rates in the individual USA states. It turns out that the freedom of establishing sales tax rates, providing that the range of tax rates for the same products in neighboring states does not exceed 5–6%, does not lead to negative consequences in trade exchange. Such differences of the sales tax rates discourage from undertaking "tourist trade trips" which become unprofitable (Krajewska 2004, p. 107). On this basis, the Council of the European Communities has established the following provisions regarding VAT rates: minimal VAT standard rate 15%, reduced rate (or two reduced rates) not lower than 5%. Reduced rates only apply to chosen goods and services, however. A detailed list contains the EU Council Directive from October 19, 1992. This list includes, among others, food and fodder (including beverages, however only nonalcoholic), medication and medical equipment, books, newspapers and magazines, tickets for cultural and sporting events and the following services: passenger transport, medical and dental, water supply, garbage disposal, hotel accommodation, funeral parlors, reception of radio and television programs.

Zero rates and reduced rates lower than 5% are allowed for a transitory period (Wach 2006, pp. 30–31). According to the general rule, Community law does not allow for the possibility of zero rates on the internal market, since it is exclusively reserved for sales between Community countries and trade exchange with third countries.[3]

4. RATES AND OBJECTIVE SCOPE OF VAT IN EUROPEAN UNION COUNTRIES

Despite unified rules contained in EU Council directives with regard to the effectiveness and application of VAT rates within the Community there are considerable differences both in the tax rate level itself, their number and the goods and services subject to reduced rates. It should be stressed that the significance

[1] The nature and significance of earlier directives in this area (VI EEC Council Directive from 1977 and EEC Council Directive 91(680)) are described among others by: Krajewska 2004, pp. 102–106.

[2] European Union Council Directive no. 77/1992/EC from October 19, 1992, complementing the common VAT system and introducing amendments to the European Union Council Directive no. 388/1977 regarding the unification of VAT rates (OJ EU L 316 from 19.10.1992).

[3] For more information on this topic, see: Borodako (ed.)_2005, pp. 117–125).

of these discrepancies has grown considerably when the common internal market was created, when it turned out that they can contribute to market competition distortion between taxpayers registered in different countries and can increase the risk of purchasers choosing goods of those tax jurisdictions where the VAT burden is lowest.

The question of establishing the VAT amount and rate diversity level in Poland and other European Union countries is problematic. This results from the significant share of this tax in the countries' budget income and the large influence of VAT on a given country's competitiveness, since in economies characterized by large fiscal burdens investment drain into countries where tax burdens are small may increase.

An analysis of standard rates that apply in the member states shows that they are congruent with Community law requirements and in the majority of cases significantly exceed the minimum amount defined in the directive. The VAT standard rate in the European Union is between 15 and 25%, whereas the average value for all member countries is 19.4%. The lowest rates are effective in Cyprus, in Luxemburg, Spain and Germany, whereas the highest rates – 25% – are effective in Sweden, Denmark and Hungary (see Table 1). It is significant that there is a large standard rate diversity between member countries up to 10 percentage points.

Exceptions from the rule of standard rate taxation take on three basic forms in the European Union countries (Schenk, Oldman 2001, p. 222) :

- taxation by means of reduced rates (including preferential and transitory rates),
- 0% rate taxation (which in fact is an exemption with the right to deduct the input tax),
- tax exemption (which constitutes an exemption without the right to deduct the input tax).

The analysis of the level and amount of reduced rates that apply in EU countries shows considerable differences occurring between individual countries. The data presented in Table 1 shows that most member states use several reduced rates, the level of which is in certain cases smaller than the minimum laid out in the directive. The above aberrations with regard to the number and amount of rates are justified in the light of art. 28 of the Sixth Directive containing transitional provisions. The purpose of these regulations is to ensure a gradual adjustment of VAT rates that are in effect in these countries' law systems to Community standards. A sudden change of the VAT burden with no transitory regulations in place could contribute to a profitability drop for some industries, an employment limitation in these sectors and an increased profitability of the "grey area" (Pomorska, Szołno-Koguc, Wojtowicz 2003, p. 164).

Table 1

VAT rates in European Union member countries in 2004

Country	VAT rates (in %)				
	standard rate	reduced rate	super-reduced rate	zero rate*	parking rate
Austria	20	10	–	-	12
Belgium	21	6	–	0*	12
Cyprus	15	5	–	0*	–
Czech Republic	19	5	–	-	0
Denmark	25	–	–	0*	–
Estonia	18	5	–	0*	–
Finland	22	17 or 8	–	0*	–
France	19.6	5.5	2.1	–	–
Greece	18	8	4	–	–
Spain	16	7	4	–	–
Holland	19	6	–	–	–
Ireland	21	13.5	4.4	0*	13.5
Lithuania	18	9 or 5	–	–	–
Luxembourg	15	6	3	–	12
Latvia	18	5	–	–	–
Malta	18	5	–	0*	–
Germany	16	7	–	–	–
Poland	22	7	3	0*	3
Portugal	19	12 or 5	–	–	–
Slovakia	19	–	–	–	–
Slovenia	20	8.5	–	–	–
Sweden	25	12 or 6	–	0*	–
Hungary	25	15 or 5	–	–	–
Great Britain	17.5	5	–	0*	–
Italy	20	10	4	–	–

* the rate applies to goods and services other than export, import and inter-Community deliveries.

Source: *VAT rates applied in the member states of the European Community (Situation at 1 September 2004)*, European Commission, Directorate-General Taxation and Customs Union (DOC/2908/2004-EN), pp. 3, 12–14.

By the transitory regulations member states may keep the reduced tax rates below the minimum rate (these are the so-called super-reduced or preferential rates) if they were in place on January 1, 1991 and if they apply to deliveries carried out based on clearly defined social reasons, where the final consumer is the beneficiary. The following countries (among others) took advantage of this possibility: France, Greece, Spain, Ireland, Luxembourg and Italy, where the preferential rates fluctuate between 2.1% and 4.4%. The super-reduced VAT rate of 3% for agricultural means of production and agricultural products and services is also effective in Poland, though here it is transitory.

Table 2 shows a catalog of goods and services taxed with "super-reduced" rates.

Table 2

Scope of using "super-reduced" [a] VAT rates in EU countries for chosen goods and services

Member state	List of goods and services
France	Books and magazines, pharmaceutical products, fees for watching television networks.
Greece	Books and magazines, cultural services.
Spain	Some groceries, pharmaceutical products, medical equipment, services in the real estate sector.
Ireland	Some groceries.
Luxembourg	Groceries (including beverages), pharmaceutical products, children's clothing and shoes, books, newspapers, magazines, services in the area of water supply and waste management, cultural and social services, hotel services, entry into sporting events, works of art, passenger transport, construction industry.
Poland	Some groceries, agricultural means of production, forest management products.
Italy	Some groceries, books, magazines, pharmaceutical products and medical equipment, construction and renovation services, social services, fees for watching television networks.

[a] Rate reduced below 5%.

Source: *VAT rates applied in the member states of the European Community* (Situation at September 1, 2004), European Commission, Directorate-General Taxation and Customs Union (DOC/2908/2004-EN).

Additionally, member states which on January 1, 1991 kept a reduced rate in place for the delivery of goods and services other than enumerated in the Sixth Directive may still apply a reduced rate for these products during the transitory period that may not fall below 12% (the so-called transitory rate). The following countries took advantage of this possibility: Austria, Belgium, Ireland and Luxembourg. In all these countries (except Ireland) the applied rate remains on the minimal level. The catalog of products and services subject to preferential taxation includes for example: in Belgium - some energy resources, fees for watching cable television, car tires; in Luxembourg - some mineral oils (lead-free gas, petroleum products) and tobacco products, tourist services, tourist guides, advertising services and publications, as well as wines, whereas in Ireland – electric energy, cosmetic, tourist, photographic and agricultural services, as well as services in the field of real estate construction and conservation.

It should also be mentioned that the Sixth Directive makes it possible to apply lower VAT rates within strictly defined, set apart member state territories. For example, on the Greek islands of Lesbos, Chios, Samos, Dodecanese and Cyclades, as well as on the Aegean Sea islands of Thasos, North Sporades, Samothrace and Skyros rates are thirty percent lower than in the country's continental part (therefore respectively: 13%, 6% and 3%). Similar preferential rates apply for transactions carried out in the autonomous regions of the Portuguese Republic, on the territory of Azores and Madeira (where the rates are 13%, 8% and 4%). Factors for introducing the above regulations were of social and economic nature. Their insular location and the significant distance of these regions from the continental part of the parent country increase transportation costs, which directly influences the product price increase (Pomorska, Szołno-Koguc, Wojtowicz 2003, p. 166).

A very important issue from the viewpoint of a common VAT system is the establishment of a unified scope of VAT exemptions that obviously has an impact on decreasing the actual income from this tax in member states, which in turn has a significant influence on the amount of the contribution paid into the common EU budget. The amount of this contribution in each member state is a specific percentage of the VAT tax base that is uniform in the whole territory of the Community.[4]

By the Sixth Directive, acts performed for the public interest (medical, social, educational and cultural services), as well as some transactions connected with financial services, insurances and the real estate market may be exempted from taxation without the right to deduct the input tax. These acts are exempted from tax if they are performed by entities acting on the basis of public law. Many member states (e.g. Belgium, Denmark, Great Britain, Ireland) apply the above exemptions also with regard to private entities, associations and foundations, at the same time establishing certain criteria, however, that must be fulfilled by them in order to be exempted. Moreover, in some other countries like Great Britain and Ireland, some goods related to the described activities, such as: school textbooks, maps, notes, medical equipment, medicine etc. are subject to zero-rate taxation, therefore the taxpayer has the right to input tax return.

There is a large diversity with regard to a group of exemptions related to financial transactions and real estate sales, where it is possible to choose the general taxation principles. A fundamental problem with regard to these exemptions are discrepancies concerning activities that should be subject to the exemptions. For instance, with reference to transactions connected with real estate rental in individual member states many diversified exemption exclusions are provided: real estate rental for residential purposes (Austria, Italy), real estate rental for usable purposes (Austria, France, Spain, Italy), rental of sport and recreational facilities (Denmark, Greece, Ireland, Portugal, Sweden, Great Britain) (see *Guides to European Taxation. Value Added Taxation in Europe* 2003).

[4] EU Council Decision from August 29, 2000 regarding the system of the European Communities' own resources no. 2000/597/EC, Eurostat.

The group of VAT exemptions where the taxpayer is entitled to input tax deduction is fairly uniform in all member states and reserved first and foremost for exporting goods and services outside the Community territory, activities connected with international transport, intra-Community goods delivery and importing goods subject to exemption in national sales. This exemption category also includes for example – in Belgium, Sweden, Greece – the delivery and provision of services in favor of air and sea carriers, goods deliveries resulting from diplomatic and consular agreements, as well as in aid of international organizations, and in Italy and Sweden – foreign gold delivery in favor of central banks.

Table 3

Scope of applying the 0% rate with regard to some goods and services categories in chosen member states

State	Goods and services with 0% rate taxation
Belgium	Delivery of daily newspapers and weeklies, delivery of recyclable materials
Denmark	Delivery of newspapers and magazines (appearing more often than once a month)
Ireland	Delivery of books and textbooks (excluding newspapers and magazines); delivery of groceries and beverages (excluding alcoholic beverages, ice-cream and confectionery); delivery of seeds, seedlings and fertilizers, delivery of animal food; delivery of medicine, medical equipment and hygienic products; delivery of clothes and shoes for children
Italy	Delivery of gold (bullion); delivery of metal scrap; delivery of ground for non-development purposes
Finland	Delivery of newspapers and magazines
Sweden	Delivery and import of prescription medicine or medicine sold to hospitals
Great Britain	Delivery of books, newspapers, maps, notes; delivery of groceries and beverages, delivery of seeds, seedlings and fertilizers; delivery of water; delivery of pharmaceutical and medicine (only those issued on prescription); delivery of rehabilitative equipment for the disabled; delivery of clothing and shoes for children; building construction for residential purposes, including building services and building material delivery; delivery of goods for charitable institutions; discharge sewage; passenger transport (public means of transportation); sale of work clothes, delivery of motorcycles, trailers, yachts.

Source: *VAT rates applied in the Member States of the European Community, Situation at lst May 2003*, European Commission, DOC/2908/2003-EN.

Exemptions with the right to deducting the tax paid in the previous sales stages are treated in some member states jurisdictions as 0% rate taxation. This possibility, besides export and import, concerns consumption goods deliveries on the national market, if such rates were in place in the national legislation as of January 1, 1991, and their application is justified for social reasons or offers advantages to the final consumer. The Table 3 shows the scope of applying the 0% rate with regard to this goods category in the legislation of some Community states.

The mechanism of VAT clearing is very similar in all Community countries. The entrepreneur is usually obliged to transfer the output tax monthly (or quarterly)[5], which can be reduced by the input tax, however[6]. The detailed solutions with regard to deductions are diversified in the individual member countries (especially concerning the amount of minimal deductions and periods of taking the input tax on the tax return into consideration).

Entities conducting business activities are obliged to register as VAT payers in all member countries, whereby in most states voluntary objective exemptions are in place for entrepreneurs whose yearly sales do not exceed a certain limit. These limits are diversified and amount to ca. 4 to 84 thousand Euro[7]. There are also countries like Spain, Holland, Sweden and Italy, where such exemptions do not apply.

5. VAT AS THE MAIN SOURCE OF BUDGET INCOME IN POLAND IN COMPARISON TO OTHER COUNTRIES

VAT is a stable and efficient income source of state budgets. It is a convenient instrument of accumulating financial means needed by the states. In a less obvious manner than direct taxes it is an effective tool for redistributing the gross domestic product.

The analysis of the income structure of the public finance sector within the gross national product shows some differences between countries with regard to burden distribution between different types of public duties. In the United States, in Great Britain and New Zealand the main source of budget income are income taxes. The opposite situation prevails in European countries, where indirect taxes dominate, especially VAT (see Graph 1).

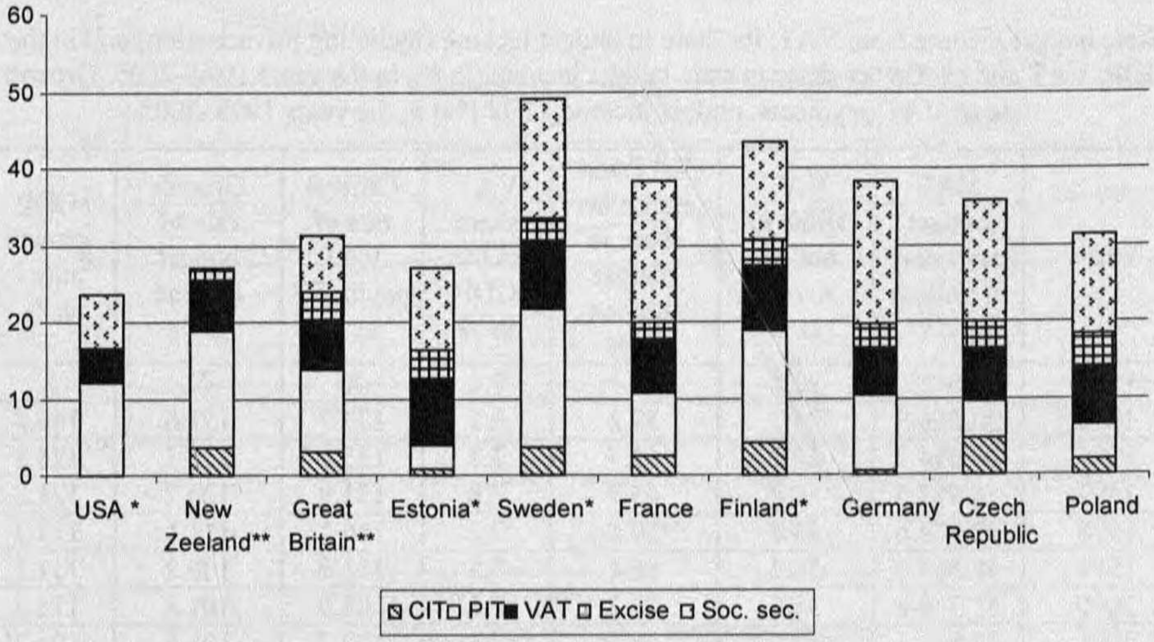
Among EU countries, VAT plays the most significant role as the source of budget income in Portugal, Ireland and Hungary (ca. 40%[8]), the least significant in Sweden and Belgium (21% and 25% respectively). If we analyze the share of indirect taxes in the GDP according to Polish methodology (that is disregarding social security premiums), it turns out that indirect taxes play the largest role in poorer countries – Portugal and Greece, where they constitute over 50% of tax revenue (similarly to Poland). They play the least significant role in much richer countries – Sweden, Denmark, Belgium and Luxembourg (OECD 1999, pp. 105–106).

[5] The tax base for the VAT input tax is the net turnover reduced by the sum of discounts, the value of returned goods and owed sums (for instance on correcting invoices).

[6] The VAT input tax is a tax the entrepreneur has already paid when purchasing the goods and services used directly within the business activity from another entity that is VAT registered.

[7] As of February 21, 2005.

[8] The share of VAT in tax income altogether in 1999.



* Data for 2001; ** Data with regard to central government income only.

Graph 1. Share of public finance sector income due to: CIT, PIT, VAT, excise tax and social security in the gross national product in chosen countries in the year 2002

Source: own calculations based on International Financial Statistics, IMF, 2003 and the Government Financial Statistic Yearbook, IMF, 2003.

The rising significance of indirect taxes in Poland results from a strategy acquired by the government with regard to lowering indirect taxes (Mujżel, Owsiak, Mączyńska (ed.) 1999, pp. 21–23). Results of the analyzes show that the share of indirect taxes in the budget income in Poland has grown from 38% in 1994 to 63.9% in 2005, and the share of VAT in budget income in the analyzed period has grown from 23.8% to 41.9%, that is by 18.1 percentage points (see Table 4 and Graph 2).

The ability of gaining income from indirect taxes more easily in Poland was due to the fact that in the beginning increasing VAT rates to the level of the standard rate has not led to such heated parliamentary debates as was the case with attempts to introduce changes with regard to the income taxes. As a result, beginning with the first year when VAT began to fully function in Poland, that is since 1994, the share of this tax in the budget income has been on a steady increase. In countries where the VAT rate was established on a moderate level, that is 15% to 20%, it is certainly possible to increase the budget income more easily. Increasing the VAT rate by each percent point means large additional income for the state.

Table 4

State budget income from VAT, its share in budget income (including privatization) and in the GDP, VAT and excise tax share in state budget income (in %) in the years 1994–2005. Growth rate of VAT payments, budget income, GDP (%) in the years 1995–2005

Years	VAT budget payments in million PLN	VAT share in budget income in %	VAT and excise tax share in budget income in %	VAT share in the GDP in %	Growth rate of VAT payments in %	Growth rate of budget income in %	GDP growth rate i n %
1994	15 013.9	23.8	38.1	7.1	X	X	X
1995	20 666.9	24.7	39.2	6.7	137.7	132.6	146.4
1996	28 014.9	28.1	43.7	7.2	135.6	119.1	125.9
1997	36 914.5	30.8	45.7	7.8	131.8	120.2	121.8
1998	42 868.6	33.9	50.5	7.7	116.1	111.6	117.2
1999	48 881.6	36.4	56.4	7.9	113.9	100.2	111.1
2000	51 749.8	38.1	58.2	7.5	105.9	101.3	111.5
2001	52 893.1	37.6	58.2	7.4	102.2	103.6	104.2
2002	57 441.6	40.0	61.9	7.7	108.6	102.1	105.2
2003	60 360.0	39.7	62.3	7.4	105.1	105.9	104.2
2004	62 263.0	39.8	64.1	6.7	103.2	102.7	109.6
2005	75 401.0	41.9	63.9	7.7	121.1	115.0	106.2

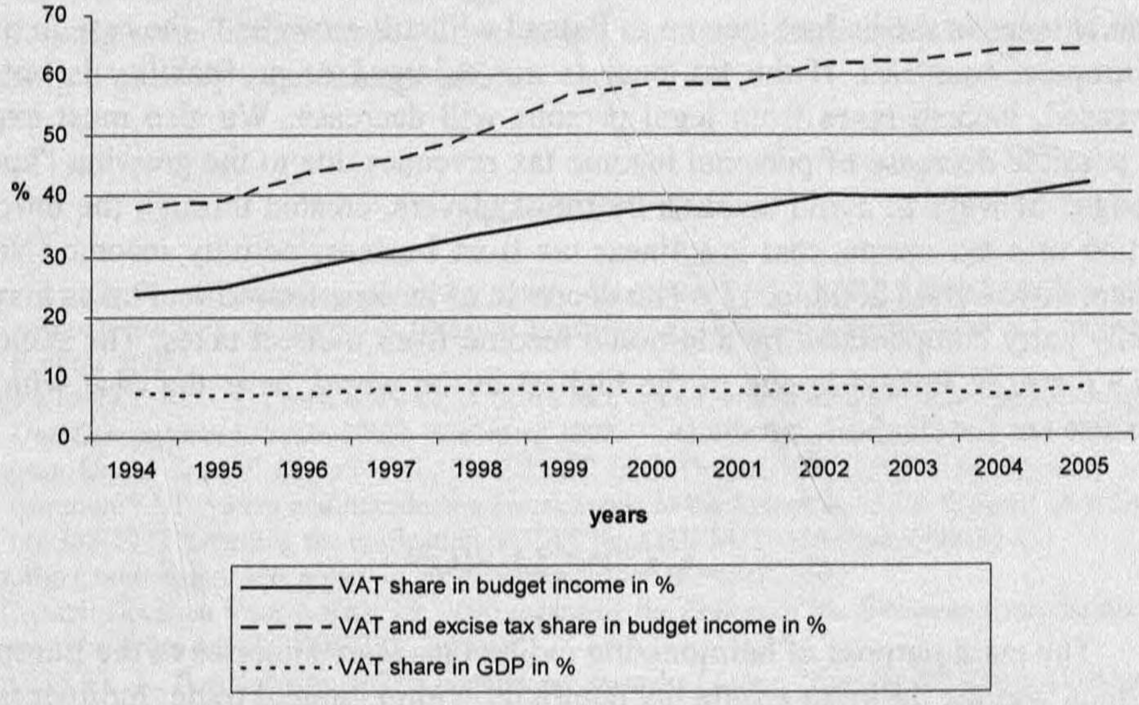
Source: own calculations based on Statistical Yearbooks of the Central Office of Statistics: 2006, pp. 624, 673, 672; 2003, pp. 533–534, 585, 579, S.Y. 2002, pp. 501–502, S.Y. 2001, pp. 493–494, 541–542, 546, S.Y. 2000, pp. 482, 526, S.Y. 1999, pp. 498, S.Y. 1998, pp. 468, S.Y. 1995, pp. 497 and 528 plus www.stat.gov.pl.

Attentions: Income from privatization increased the state budget income until 1997. For comparability reasons, privatization income is included separately in the state budget income since 1998.

Looking at Graph 2 we see that in comparison to the state budget income there is a strong progression of income from VAT, whereas the share of this tax in the GDP is slightly progressive – on Graph 2 it is almost linear. In the year 1994–2005 the share of VAT in the GDP varied from 6.7% to 7.9%.

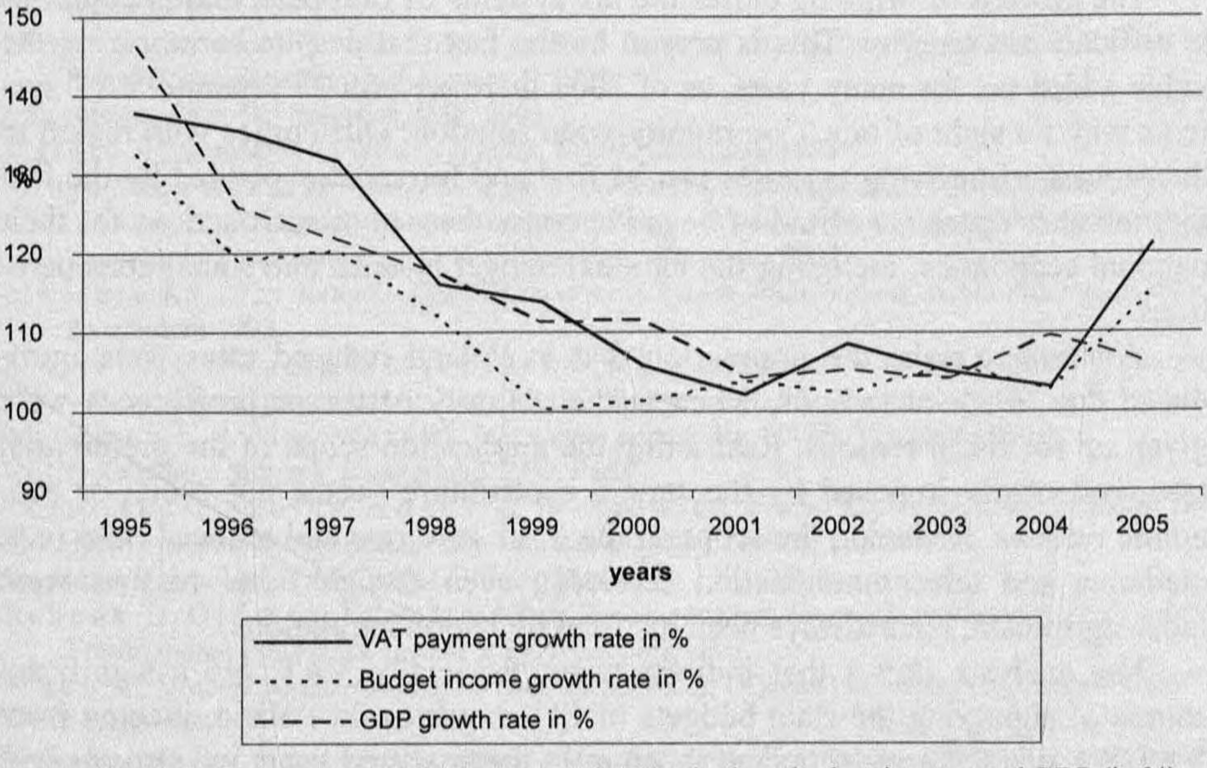
In Poland, the growth of VAT significance is less visible if we measure its share in the GDP, the growth rate of which in the years 1995–2005 was decreasing (see Table 4 and Graph 3).

At the same time it should be noted (see Table 4 and Graph 3) that during the whole analyzed period (except 2001 and 2003) the growth rate of income from VAT was higher than the state budget income growth rate. This illustrates the process of shifting the burden of supplying the state budget to VAT very well. In the years 1995–2000 we see a systematic growth rate decrease both with regard to VAT and state budget income, whereas beginning with 2001 we see alternating growth and decrease in this area.



Graph 2. Share of VAT and excise tax in budget income (including privatization), share of VAT in the GDP in Poland in the years 1994-2005 (in %)

S o u r c e: own calculations based on data from Table 4.



Graph 3. Change rate of VAT payments into the budget, budget income and GDP (in %) in Poland in the years 1995–2005

S o u r c e: own calculations based on data from Table 4.

In accordance with present trends we may assume that the large share of indirect taxes in the budget income in Poland will still grow, as is the case in other European countries. If the tax base is not enlarged or profitability is not increased, income taxes from legal persons will decrease. We also must expect a possible decrease of personal income tax revenues due to the growing "knowledge" of ways to avoid taxation by the taxpayers, created through the introduction of a tax option, that is a linear tax from business activity income (Neneman, Piwowarski 2004, p. 11). The decrease of income from direct taxes may be only party compensated by additional income from indirect taxes. The standard VAT rate in Poland is one of the highest in the world, as is the case with the excise tax for alcoholic products.

6. CONCLUSION

The main purpose of harmonizing indirect taxes in countries of the European Union was the desire to ensure tax neutrality within internal trade. Indirect taxes in individual Community countries are diversified, the creation of the internal market, however, made it partly possible to unify the consumption tax system in such a way that *it does not disturb* the free movement of goods and services, as well as the production factors between these countries.

The process of bringing closer the tax systems of European Union countries is difficult and lengthy. This is proven by the fact that despite harmonizing the value added tax for many years, as of 2007 there are still 27 separate VAT systems with no sight of one, Community-wide solution. Difficulties with regard to the process of unifying tax rates can be first and foremost explained by the fact that member states are afraid of negative consequences of such actions for their national economies, including the national budget balance and social considerations.

We cannot resist the impression that in Poland reduced rates were introduced due to social reasons, whereas the majority of theses preferences were given up for fiscal reasons. Restricting the application scope of the preferential rate was mostly imposed by the state's expenditure needs, not social or economic reasons. Reducing the scope of the VAT zero rate and reduced rates (e.g. medicine and telecommunication services), even though fiscal reasons were most significant, have always been justified by Union regulations.

The analysis shows that indirect taxes, especially VAT, are a significant source of supplying the state budgets of EU countries. In Poland, income from VAT is a main source of budget income. In the analyzed years we also observe a distinct process of shifting the burden of supplying the Polish budget to Value Added Tax.

The Polish VAT rate amounting to 22% is one of the highest in Europe. Due to growing state budget expenditure needs there are no feasible means of decreasing it even by 1 percentage point.

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PODATEK OD WARTOŚCI DODANEJ W KRAJACH UNII EUROPEJSKIEJ – ANALIZA PORÓWNAWCZA

System podatkowy Unii Europejskiej nie jest systemem jednolitym bowiem składa się z dwudziestu pięciu krajowych systemów podatkowych państw członkowskich. Wyjątkowa waga działań dostosowawczych w sferze podatku VAT wynika z kilku co najmniej powodów. Pierwszym jest fakt, że jest on wydajnym, pewnym i bardzo stabilnym źródłem dochodów dla budżetów krajowych we wszystkich państwach członkowskich UE. Drugim jest kluczowa rola tego podatku jako głównego instrumentu zapewniającego warunki swobodnego, opartego na zasadach uczciwej konkurencji przepływu towarów, usług i kapitału na wspólnym rynku europejskim. Trzecim powodem są wielorakie pozafiskalne skutki, jakie ten podatek wywołuje zarówno dla podmiotów gospodarczych, jak i osób fizycznych oraz gospodarstw domowych.

Niniejsza praca poświęcona jest problematyce funkcjonowania podatku VAT w krajach Unii Europejskiej. Szczegółowej analizie poddana została struktura stawek i zakres przedmiotowy podatku VAT oraz znaczenie tego podatku dla dochodów budżetowych państw Wspólnoty.

Słowa kluczowe: Unia Europejska, podatki pośrednie, VAT.