TAX HARMONIZATION IN EU

The Theoretical Background of The Harmonization Argument

- In a world of capital mobility savers and investors act on an international market.
- Taxation is inefficient; it would be superior to tax immobile factors of production instead of mobile capital.
- What happens if savings instead of investments are taxed?
- Governments choose tax harmonization instead of tax competition.

Tax Policy Coordination in The EU From The Beginnings

What Does Tax Harmonization Mean?

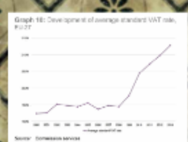
- Harmonization of indirect taxes e.g. VAT and duties
- Harmonization in direct taxes e.g. income tax and corporation tax

Conclusion

- The battle between tax competition and tax harmonization is really a fight about whether government will control the factors of production.
- Tax harmonization policies are needed to reduce evasion, but there are two ways to improve tax compliance.
- Tax competition is the only realistic hope for German taxpayers,French taxpayers,and Swedish taxpayers.

Does EU Need Tax Harmonization?

- Like it or not, tax harmonization, a core element on the road towards more economic union, seems to be advancing again at EU level.
- There is the seemingly growing momentum behind the financial transaction tax (FTT) in EU legislative bodies, although the bluntness of the measure and its procedure, i.e. enhanced cooperation, leave much to be desired.



Taxation Policy & The Lisbon Strategy

- European citizens are faced with a number of issues and very different national perspectives on taxation in the EU.
- The Commission is currently preparing a Communication that will present the key Community taxation and customs policy measures that would contribute to fulfilling the Lisbon strategy.

Thank You for Paying Attention

Gizem OKSUZ
Ezgi Setenay GUN

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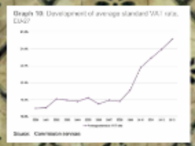

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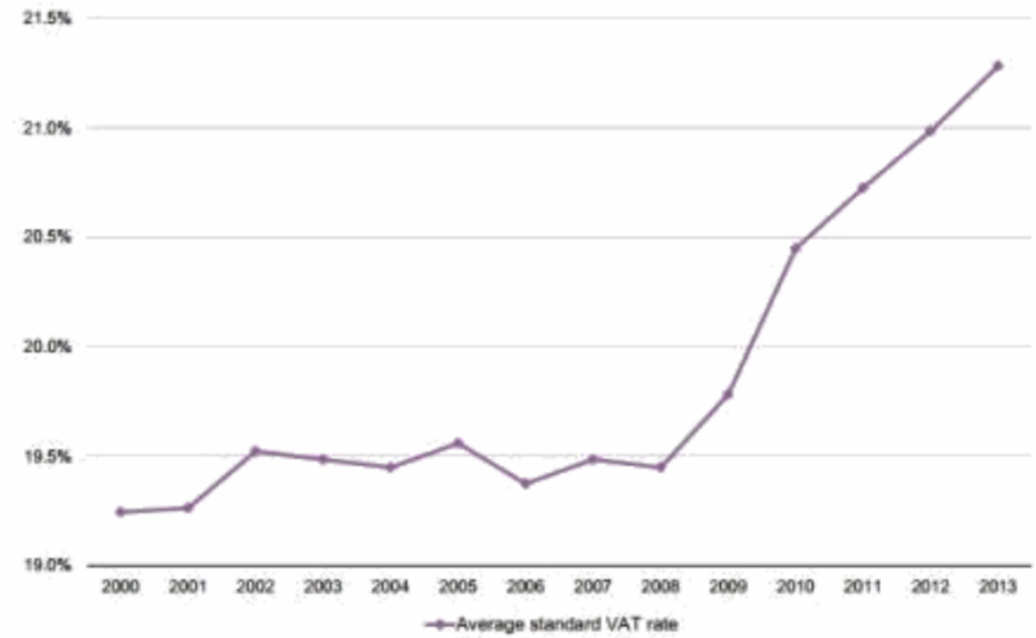
Graph 10: Development of average standard VAT rate, EU-27



Source: Commission services

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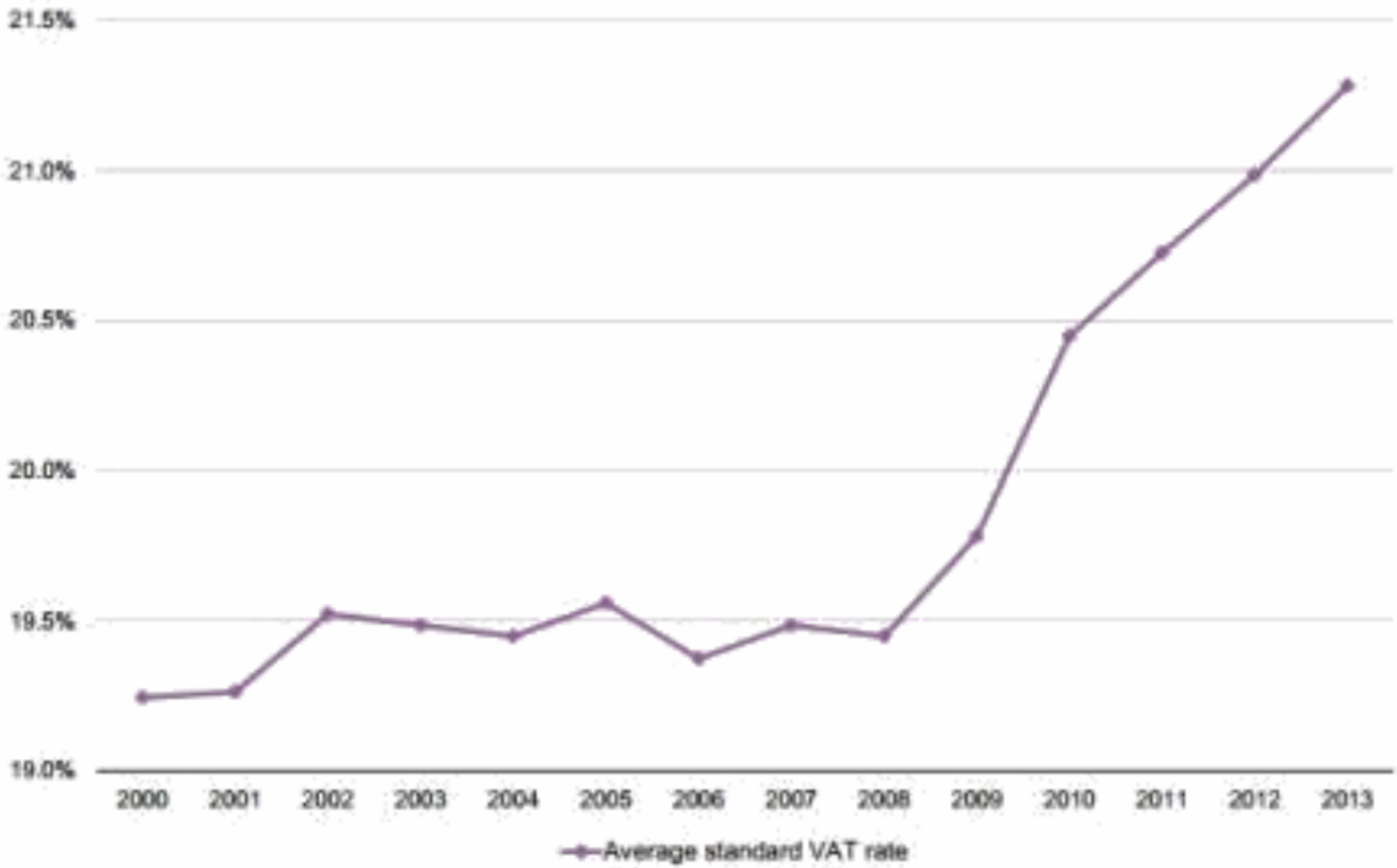

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Harmonization of customs and indirect taxes

Indirect taxes, like value added tax, excise duties and customs are levied on the turnover of products or services; therefore, these levies are able to hinder the free circulation of the products and services in an internal market established by the EEC.

Harmonization of direct taxes

direct taxes (personal income tax, corporate income tax), capital tax and social security contribution should be paid on income and capital flows; so, these may prevent the free movement of persons (natural or juridical) and the free movement of the capital.