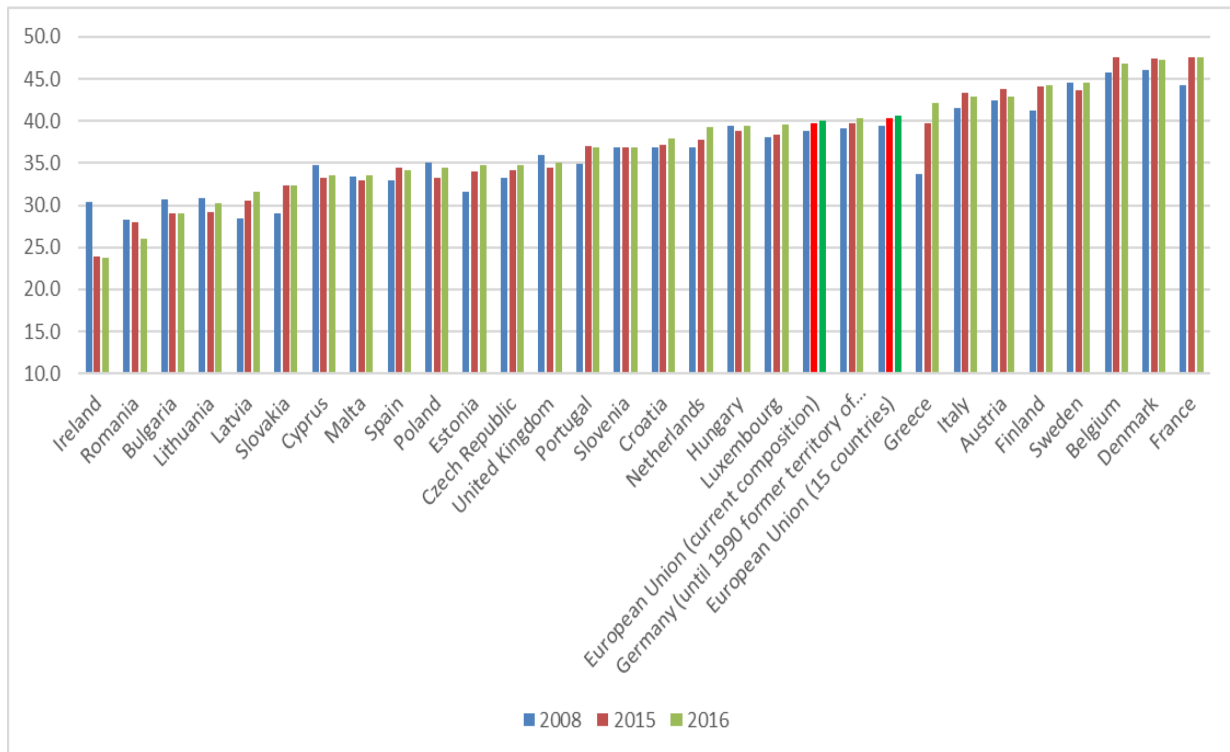
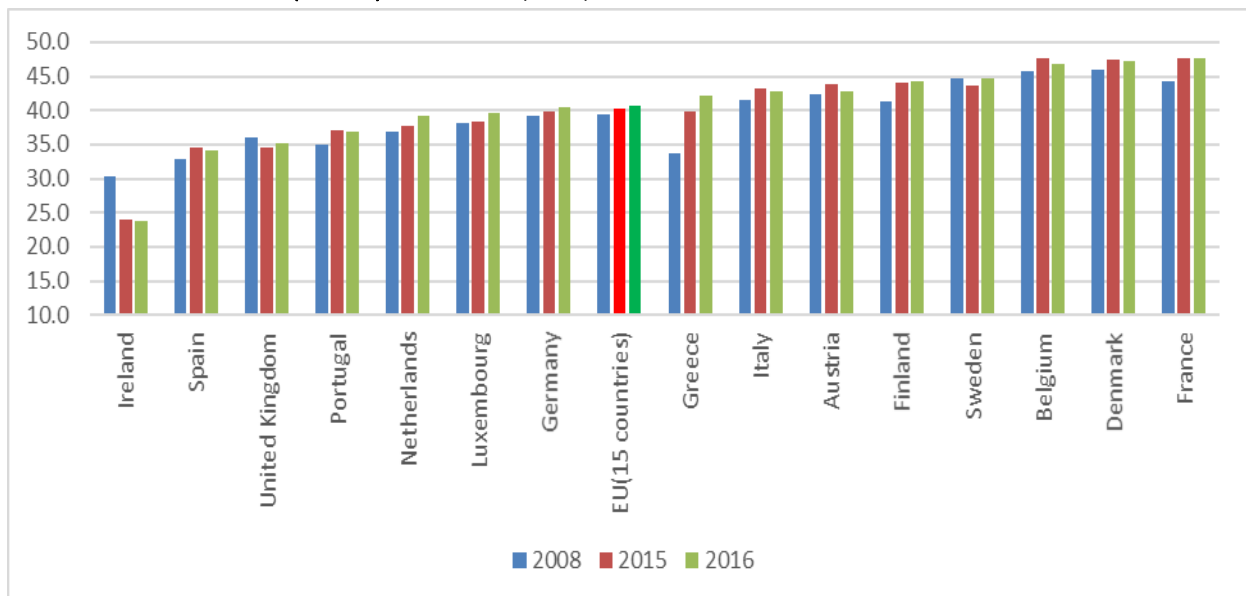
Taxation

Chart 8.1: EU-28 Total Taxes (incl ssc) as a % of GDP, 2008, 2015 and 2016



Source: Eurostat, [gov_10a_taxag]. Includes social security contributions.

Chart 8.2: EU-15 Total Taxes (incl SSC) as a % of GDP, 2008, 2015 and 2016



Source: Eurostat, [gov_10a_taxag]. Includes social security contributions.

Taxation

In 2016 tax revenue (including net social contributions) accounted for 40% of GDP in the European Union (EU-28). In absolute terms, tax revenue in 2016 continued to grow from its low-point in 2009. Compared with 2015, slight increases in the ratio are observed for the EU and the euro area. At 41.3%, the ratio of tax revenue to GDP in the euro area (EA-19) was higher than in the EU-28.

However, as Chart 8.1 shows, there is considerable variation between member states in the EU in respect of total taxes as a proportion of GDP. Nine countries had total taxation ratios greater than the EU average of 40 % (in 2016). The highest levels are found in the 'older' countries of the EU, including France, Denmark, Belgium, Sweden and Finland (47.6, 47.3, 46.8, 44.6 and 44.3 %, respectively). At the other end of the scale were Ireland (23.8%), Romania (26%), Bulgaria (29%) and Lithuania (30.2%). Overall, the range is broad with a difference of 23.8 pps between the country with the lowest ratio (Ireland) and that with the highest (France).

Between 2015 and 2016, decreases in the tax-to-GDP ratio were observed in nine EU Member States (Romania (-2 pp), Austria (-0.9pp), Belgium (-0,8 pp), Italy, Spain, Denmark, Portugal, Bulgaria and Ireland). The tax-to-GDP ratio remained stable in France and Slovenia. Increases in the tax-to-GDP ratios were observed in the remainder of countries, with the highest increases in % of GDP from 2015 to 2016 (in percentage points) being recorded by Greece (2.3 pp.), the Netherlands (1.5 pp.) and Luxembourg (1.2 pp.).

Already before the 2004 enlargement, several member states had tax ratios close to 50 % (such as the Scandinavian countries and Belgium), and also several low-tax Member States (such as Ireland, Spain, the UK and Greece) (Eurostat 2008). The generally lower tax ratios in the accession countries meant that the 2004 and 2007 enlargement resulted in a significant decline for the EU average value. Thus, in Chart 8.2 the tax ratios are set out for EU-15 countries. This shows an average ratio of 40.6% for the EU-15 for 2016, slightly higher than the average for EU-28 countries. When looked at in this way it is again Ireland that has the lowest ratio, followed by Spain, United Kingdom and Portugal. It must also be acknowledged in the case of Ireland that the highly globalised nature of the Irish economy as well as taxation policies pursued inflates GDP as a measure of activity. Research by *Social Justice Ireland* shows the total tax take in 2017, when measured as a percentage of the more appropriate GNI, was 29.3% compared to 23.3% GDP. This is still some distance below the EU average.

Eurostat takes 35% of GDP as a ratio that represents a relatively low-tax approach. In EU-15 (the 'old member states of the EU), Ireland is the only country with a tax take that is appreciably lower than the 35% threshold, with the next lowest ratios in Spain and the UK (34.1% and 35.1%, respectively). Nine of these countries have ratios that are 40% of GDP or greater (France, Denmark, Belgium, Sweden, Finland, Austria, Italy, Greece and Germany).

Policy Priorities

- Develop sustainable approaches to taxation by raising revenue that generates enough to support vital services and to move to a social investment approach.
- Avoid increases in indirect taxes on essential items which affect the poorest most.
- Tackle tax evasion by introducing fair systems in which all sectors of society, including the corporate sector, contribute a fair share and those who can afford to do pay more.