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Taxation in the EU from 1995 to 2003

EU25 overall tax burden at 40.3% of GDP in 2003

Labour accounts for half of tax revenue

In 2003, the overall tax burden[1] (i.e. the total amount of taxes and social security contributions) in the **EU25**[2] stood at 40.3%[3] of GDP. The total tax burden varied significantly between Member States, ranging from 28.5% in **Lithuania** and 28.9% in **Latvia** to 50.8% in **Sweden** and 48.8% in **Denmark**. There were also significant differences between Member States in the levels of implicit tax rates[4] (i.e. average effective tax rates) and in the top tax rates on personal[5] and corporate income[6].

The publication 'Structures of the taxation systems in the EU'[7] issued by **Eurostat, the Statistical Office of the European Communities** and the Commission's **Directorate-General for Taxation and Customs Union** provides a compilation of tax indicators in a harmonised framework based on the European System of Accounts (ESA 95) for analysing the structures of the taxation systems of the Member States and monitoring taxation policies across the **EU**. The 2005 edition also provides for the first time implicit tax rates for the ten new Member States.

Implicit tax rates on labour and consumption varied by one to two across the Member States

Broken down by economic function, i.e. labour, capital and consumption, labour taxes were the largest source of tax revenue, contributing in 2003 around half of total tax receipts in the **EU25** as a whole. Taxes on capital accounted for approximately 20% of total tax receipts, while consumption taxes accounted for almost 30%.

The average implicit tax rate on labour[4] in the **EU25** was 35.9% in 2003, and has remained relatively stable since 1995. Among the Member States, rates ranged in 2003 from 22.4% in **Malta**, 24.4% in **Cyprus** and 24.6% in the **United Kingdom** to 46.1% in **Sweden**, 43.3% in **France** and 43.2% in **Belgium**. The implicit tax rate on labour largely reflects the important role played by wage-based contributions in financing the social security system. On average in the EU, more than 60% of the overall implicit tax rate on labour consists of non-wage labour costs paid by both employees and employers.

The average implicit tax rate on capital[4] in the **EU25** increased steadily from 23.2% in 1995 to 27.8% in 1999, then fell to reach 25.4% in 2003. The increase occurred against a background of falling statutory corporate tax rates and simultaneous base broadening measures. However, an important part of the increase in the implicit tax rate on capital can be attributed to cyclical factors, i.e. the economic expansion up to 2000. The decline in the implicit tax rate observed in 2001, 2002 and 2003 was linked to the slowdown of economic growth and the impact of measures taken to reduce tax rates. The lowest implicit tax rates on capital in 2003 were recorded in **Lithuania** (6.5%), **Estonia** (10.9%) and **Greece** (17.0%), and the highest in **France** (35.9%), **Ireland** (33.3%) and **Portugal** (32.6%).

The average implicit tax rate on consumption[4] in the **EU25** was 22.0% in 2003, and has remained relatively stable since 1995. Consumption was most taxed in **Denmark** (33.9%), **Sweden** (30.5%) and **Hungary** (28.5%). **Malta** (16.1%), **Spain** (16.5%) and **Italy** (17.0%), on the other hand, registered the lowest implicit tax rates.

Top tax rates generally lower in new Member States

In 2005, the top statutory personal income tax rate[5] in the **EU25** is on average 41.1%. Amongst the Member States, the highest top statutory personal income tax rates are found in **Denmark** (59.0%), **Sweden** (56.5%), **Finland** (52.1%) and the **Netherlands** (52.0%), and the lowest in **Slovakia** (19.0%), **Estonia** (24.0%), **Latvia** (25.0%) and **Cyprus** (30.0%).

The average effective top statutory tax rate on corporate income[6] in the **EU25** in 2005 is 26.3%. The highest effective top statutory tax rates on corporate income are recorded in **Germany** (38.6%), **Italy** (37.3%), **Spain** and **Malta** (both 35.0%), and the lowest in **Cyprus** (10.0%), **Ireland** (12.5%), **Latvia** and **Lithuania** (both 15.0%).

Tax burden, Implicit tax rates by type of economic activity and top statutory tax rates

	Total taxes, as % of GDP		Implicit tax rate on: Consumption		Implicit tax rate on: Labour		Implicit tax rate on: Capital		Top statutory personal income tax rate, %	Effective top statutory tax rate on corporate income, %
	1995	2003	1995	2003	1995	2003	1995	2003	2005	2005
EU25*	**40.5**	**40.3**	**21.8**	**22.0**	**36.0**	**35.9**	**23.2**	**25.4**	**41.1**	**26.3**
Euro-zone*	**40.8**	**41.0**	**20.9**	**21.5**	**36.2**	**36.8**	**23.3**	**28.2**	**45.4**	**30.3**
BE	45.1	45.7	21.2	21.5	44.1	43.2	23.8	29.5	50.0	34.0
CZ	36.2	36.2	22.4	20.5	39.4	40.1	24.8	27.0	32.0	26.0
DK	49.0	48.8	31.3	33.9	40.9	40.0	26.4	26.1	59.0	30.0
DE	40.8	40.3	18.8	18.5	39.5	40.6	21.2	20.1	42.0	38.6
EE	37.9	33.4	22.2	20.7	38.8	38.6	18.2	10.9	24.0	24.0
EL	32.6	36.2	17.5	17.9	34.1	40.9	12.0	17.0	40.0	32.0
ES	33.4	35.6	14.3	16.5	28.9	29.8	20.7	30.3	45.0	35.0
FR	43.7	43.8	22.9	21.4	42.2	43.3	31.0	35.9	48.1	33.8
IE	33.5	29.9	25.3	26.1	29.7	25.2	22.0	33.3	42.0	12.5
IT	41.2	42.9	17.6	17.0	37.8	41.6	26.3	31.1	45.0	37.3
CY	26.9	33.3	12.2	18.5	22.4	24.4	:	:	30.0	10.0
LV	33.6	28.9	19.3	17.2	39.2	36.4	:	:	25.0	15.0
LT	28.6	28.5	:	17.1	:	38.4	:	6.5	33.0	15.0
LU	42.3	41.3	22.0	24.8	29.5	28.5	24.9	27.1	39.0	30.4
HU	41.6	39.1	30.7	28.5	42.6	39.2	:	:	38.0	17.5
MT	26.9	33.6	14.6	16.1	21.8	22.4	:	:	35.0	35.0
NL	40.6	39.3	22.6	23.8	35.1	31.8	23.0	31.6	52.0	31.5
AT	41.3	43.0	20.5	21.7	38.5	40.5	26.0	22.6	50.0	25.0
PL	39.4	35.8	:	:	:	:	:	:	40.0	19.0
PT	33.6	37.0	19.5	20.0	31.0	33.7	20.7	32.6	40.0	27.5
SI	40.8	40.1	25.5	24.9	39.2	38.4	:	:	50.0	25.0
SK	40.5	30.6	:	21.7	:	32.4	:	18.3	19.0	19.0
FI	46.0	44.8	28.2	28.3	43.9	42.1	27.9	27.3	52.1	26.0
SE	49.5	50.8	28.4	30.5	46.8	46.1	18.0	27.7	56.5	28.0
UK	35.4	35.7	21.7	21.8	25.7	24.6	28.3	28.0	40.0	30.0
NO	42.3	43.2	34.5	33.1	37.8	38.3	:	:	:	:

Source: Commission Services.

* EU25 and euro-zone total tax rates as % of GDP are calculated using GDP weights. For all other indicators the aggregates are calculated using an arithmetic mean.

: data not available

1. The tax-to-GDP ratio measures the **overall tax burden** as the total amount of taxes and compulsory actual social security contributions as a percentage of GDP. This indicator is widely used to measure the overall tax burden but includes the taxes that are raised on social transfers. Because social transfer recipients often receive directly a net pay, they do not feel the burden of paying taxes.
2. **EU25**: Belgium (BE), the Czech Republic (CZ), Denmark (DK), Germany (DE), Estonia (EE), Greece (EL), Spain (ES), France (FR), Ireland (IE), Italy (IT), Cyprus (CY), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), the Netherlands (NL), Austria (AT), Poland (PL), Portugal (PT), Slovenia (SI), Slovakia (SK), Finland (FI), Sweden (SE) and the United Kingdom (UK).
3. Revised figures. See News Release 15/2005 of 28 January 2005, and Statistics in Focus, Economy and Finance, 3/2005, "Tax revenue in EU Member States: Trend, level and structure 1995-2003".
4. **Implicit tax rates** (ITR) measure the effective average tax burden on different types of economic income or activities, i.e. on labour, consumption and capital. ITR express aggregate tax revenues as a percentage of the potential tax base for each field.
   ITR on labour considers all personal income taxes, payroll taxes and compulsory social security contributions as labour tax revenues and, as the tax base, the total amount of compensation of employees in the economy. The average may conceal important variation in the tax burden across the income distribution.
   ITR on consumption considers taxes levied on transactions between (final) consumers and producers and on the (final) consumption of goods and the tax base is defined as the final consumption expenditure of households on the economic territory.
   ITR on capital includes taxes levied on the income earned from savings and investments by households and corporations and taxes related to stocks of capital stemming from savings and investment in previous periods. The denominator of the capital ITR aims to approximate the world-wide capital and business income of Member States' residents for domestic tax purposes. Trends in this capital ITR reflect a wide range of factors and it should be interpreted with caution.
5. **Top statutory personal income tax rate** reflects the tax rate for the highest income bracket without surcharges. For Denmark, Finland and Sweden also the municipal income tax is included.
6. **Effective top statutory tax rate on corporate income** reflects the non-targeted rate including surcharges and averages of local taxes. For Estonia the rate refers only to distributed profits; as from 2000 the tax rate on retained earnings is zero. The rate for Italy includes ‘IRAP’ (rate 4.25%) a local tax levied on a tax base broader than corporate income.
7. "**Structures of the taxation systems in the EU: 1995-2003**", ISBN 92-790-0337-2, EUR 28 (excl. VAT), only available in English. The publication is available free of charge in PDF format on the Eurostat website.

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