# Analysis of Fiscality and Economic Growth at EU Level

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**Abstract**

**Purpose/objectives**: What this article proposes is to make a presentation as clear and current as possible of the member states' taxation, direct and indirect taxation being the main categories to which we refer. The choice of the theme was motivated by our interest in discovering the effects of some decisions taken at the European level. It is desired to discover the way and the impact in which taxation influences economic growth in the European community.

**Design/methodology:** Mix research technique has been used. While qualitative research entails in-depth literature readings and reports, quantitative analysis entails presenting data via graphs and tables.

**Findings:** Taxation was and will remain a main component in the general economy that influences the good functioning of a system. Its effectiveness is conditioned by the legal regulations that each state designs individually, but not without the influence of the communities of which it is a part. For example, Romania was conditioned upon its entry into the European Union to modify its laws in order to be at the same level as the states in the Union. It is a laborious process that takes a long time and is constantly changing and improving. The process of designing and implementing these programs is tried to be carried out as easily as possible for each individual state, being individualized by economy, regional power, global impact, etc. The progress of each country entered in this sense is very important and is constantly monitored, and periodic reporting is very useful.

**Originality/value:** The work is an original research work conducted by the researchers. The findings will add to the body of knowledge on the area of research funding in Romania.

**Possible practical implications:** The completed project is addressed to those people who are interested in the fiscal side of an economy, especially understanding the process of economic growth, how difficult it is to reach a favorable situation at such a high level.. It can also represent a starting point for bachelor's, master's level studies, in order to broaden general knowledge, or even in-depth study for a final paper.

**Keywords**

Development, economy, fiscality, taxes.

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## Introduction

The future of any modern state is inconceivable without a tax system that performs well in terms of yield and affordability on the part of taxpayers. The present state of prosperity of a contemporary state is dependent, to a large extent, on the history of its own fiscal system, on the way it was conceived and functioned. What distinguishes a country in progress from one in decline is, to a large extent, the preference shown to building the future. This preference is measured by taxes, loans and the interest rate (Oprea, 2022).

A state's finances are closely related to its social and political situation, there being a strong interdependence between the political regime and finances.

Taxes are a "bad" for those who bear them and a "necessary" for feeding the public budget, being the most important source in this regard. The honest taxpayer agrees to pay the tax and voluntarily submits to this burden, but at a given moment, when the taxes exceed certain limits of affordability, phenomena occur that seriously undermine the state's ability to collect these revenues.

The behavior of the taxpayer becomes abnormal, he tries in every way to evade the tax, hoping for a decrease in the fiscal pressure that sometimes becomes suffocating. The literature proved that competition can have divergent echos on the economic behaviours (Istudor et al., 2022) and this has direct impact on tax collection.

The increase or decrease of fiscal pressure over a certain period is definitely linked to the economic and social role of the state, to its intervention in order to ensure the source of public expenditure coverage.

The fiscal policy within the European Union consists of two components: direct taxation, which remains the exclusive competence of the member states, and indirect taxation, which influences the free movement of goods and the free provision of services (Stefan, 2022). As regards direct taxation, member states have taken measures to prevent tax evasion and double taxation (Acemoglu et al., 2019).

Fiscal policy is intended to avoid distortion of competition between Member States on the internal market due to differences between the levels and regimes of indirect taxation (Burlacu, Lădaru et al., 2022). Also, measures were taken to prevent the negative effects of fiscal competition in situations where companies make cash transfers between the member states of the European Union (Bayar, 2016). Competition-related policy measures require all the atention of decision-makers (Constantin et al., 2023).

Governments have always juggled indirect tax rates, managing to reach international agreements as well. The changes that have occurred at the European level are numerous and are determined by economic, political, social movements and, especially in the last period, they have determined the emergence of some situations that we are currently facing (Mathieu &Sterdyniak, 2019).

## 1. Review of the scientific literature

European organizations must be alert and responsive to all the movements occurring on the economic level to direct their help and interest to countries that have potential, abilities to prosper and to implement the European concepts that are the basis of the Union of which Romania is also a part (Rădulescu, Angheluta et al., 2022. Indirect taxes have the largest share in total revenues for each country separately and at the European level, so it can be said that the evolution of these taxes directly affects us even if they are indirect, having the illusion that we taxpayers do not bear them, they hide in every good/service purchased (Burlacu, Ciobanu et al., 2021).

Governments can mask their intentions to increase revenues through these indirect taxes because they are not as contested as the direct ones paid by each taxpayer separately at the end of the year or semester (Rădulescu, Bran et al., 2022). Each state manages its own quotas, the methods of implementing these taxes, each state wants to impose its own vision and make a well-argued opinion regarding the common European regulations, the EU-27 member countries must consider minimum and maximum taxes throughout the European territory. Harmonizing all the needs required time and understanding, each country following a well-established protocol, and the individual route planned for each state.

The fiscal field is a vast one, but the main thought of any person when he hears about taxation is the tax (Burlacu, Georgescu et al., 2022). This immortal source of the state (Calin et al., 2022), which manages to collect revenues year after year for the state budget, covers any activity of taxpayers who are forced to obey the law and pay the necessary taxes.

The functions of taxation are based on the correct approach to the fundamental functions performed by public finances:

- Distribution function - Mobilization- through which financial resources are formed through differentiated withdrawals from the income or wealth of natural and/or legal persons, with a definitive, non-refundable title, and without an equivalent consideration from the state;
- Distribution- through which public funds are directed to their beneficiaries.
- The control function- as an important function, justified by the fact that public funds belong to the

entire society and are administered by the state in charge of the nation. That is why the institutions specialized in fiscal control monitor the legality, necessity, opportunity and efficiency with which public money is constituted and spent.

The issue of fiscal pressure is also a very vital component of the system, which emphasizes the importance of quantifying the fiscal burden both at the macroeconomic and microeconomic (Al-Naser et al., 2019).

In the completion of this issue, the analysis of the causes of the increasing trends in mandatory withdrawals is presented with an accuracy worthy of being reported to the specialists in the field. Taxation falls within the competence of the member states and not of the European Union.

## 2. Research methodology

What is desired through this work is the achievement of a clear and current presentation of the taxation of the member states, direct and indirect taxation being the main categories to which we refer. The methodology used was limited to the search for viable sources of information and research, the collection of necessary data from Eurostat, but the presentation focused more on theoretical aspects that I extracted from numerous books and articles as well as specialized websites. The theoretical part for this study is given in general by the use of official websites made available to the interested public. Our research also covers financial dailies and local newspapers.

## 3. Results and discussion

The fiscal pressure, also known as the Taxation Rate, can be calculated at the individual level (per person), in this way each taxpayer can determine the degree to which they bear taxation; for the economic agent, modern enterprises perform periodic calculations to determine fiscal costs, their evolution and proportions; or globally (Álvarez et al., 2019).

It is known that any compulsory levy obtained from taxpayers returns to the economic circuit through public spending, therefore this indicator should not be considered as a pressure of the state on the economy. The rate of taxation pressure expresses relatively the public burdens that press on the economy, reflecting the part of the GDP that is taken over to the public budget in order to cover public expenses. In a developed economy, the tax pressure can increase without affecting the tax base, which makes the level of absolute withdrawals increase (Bojanic, 2021). Above a certain threshold of the fiscal pressure - which correspund to the maximum amount possible to be collected from compulsory levies, as the level of tax rates increase, the level of tax receipts decreases. The high fiscal pressure causes a direct or indirect slowdown of economic activity in general, which previously leads to a decrease in the tax base.

For the period 2010-2021, the fiscal pressure was analyzed at the level of the European Union, the 27 countries, following the evolution of this indicator, we observe the increase of the fiscal pressure in 2021 compared to 2011 and 2012 when together with the decrease in the revenues collected to the budget, the GDP also decreased, which meant a lower fiscal pressure.

**Table no. 1. The situation of total EU27 revenues and EU-27 GDP, in millions of euros, for the period 2010-2021**

| Year/Millions of EUROS | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
|---|---|---|---|---|---|---|
| EU-27 | 4.268.433,9 | 4.277.928,5 | 4.375.532,6 | 4.450.175,9 | 4.655.286,9 | 4.901.793,8 |
| GDP | 9.258.000 | 9.691.769 | 9.982.139 | 10.153.898 | 10.804.970 | 11.264.975 |
| Year/Millions of EUROS | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** |
| EU-27 | 5.235.386,8 | 5.543.387,8 | 5.671.679,6 | 5.594.720,4 | 5.6413.080,5 | 5.680.840,9 |
| GDP | 11.811.604 | 12.501.315 | 12.664.608 | 11.952.761 | 12.674.559 | 12.841.711 |

*Source: Eurostat data*

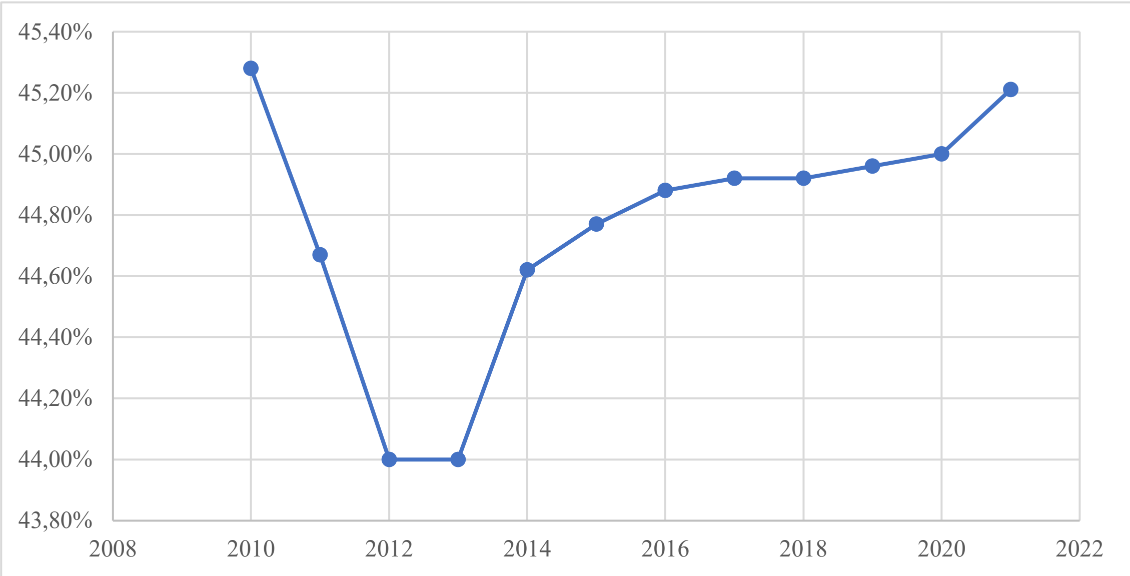


**Figure no. 1. Tax rate (%) EU-27 for 2010-2021**
*Source: Eurostat data*

- *Fiscal policy trends in the EU states*

For this chapter, the main material studied was the European Commission's 2022 Eurostat report on Taxation in Europe. Fiscal policy differs from country to country, but the European Union tries to provide a favorable framework for the simultaneous development of all member countries.

It is desired to apply a single monetary policy at the European level, but this step is very difficult to take, as there are numerous impediments of a fiscal and above all political nature.

Fiscal policy and taxation practices in Europe have an impact on the global economy, being closely monitored by the World Bank, the IMF, etc. (Balu et al., 2021).

Some time after the beginning of the pandemic, which for Europe meant a strong economic decline, the European authorities are trying to find customized solutions for each country within the European space in order to obtain a harmonization in terms of overcoming the financial difficulties caused by the economic crisis. The reduction in economic growth was due to the change in most components of the Gross Domestic Product (Mladenovska and Tashevska, 2019).

The report highlighted the various anti-crisis packages, the wide range of policies, fiscal measures adopted by EU governments in response to the crisis. Taken as a whole, the EU is a high-tax area, so the measures considered must coincide with the situation economy of each member country. For 2021, the General Fiscal Report prepared by Eurostat indicated that the sum of taxes and social security contributions for the 27 member states (EU-27) amounted to 39.5% of the weighted average GDP, more than a third above the levels recorded in the United States and Japan.

Regarding future trends, the European Commission forecasts for the coming years EU-27, the overall fiscal ratio will remain well below the pre-crisis level, but governments are generally sleepy to maintain favorable conditions for recovery, to restart economies. However, in the long term, the accumulation of debts by the member states will lead to the solution of the governments to gradually strengthen their own budgets so that tax reductions will be limited (Wahrig, 2012).

Governments must face challenges to ensure recovery, fiscal consolidation, productivity growth and job creation. In this sense, they continue to balance supporting the recovery of the economy based on the timely implementation of anti-crisis economic policies (Blanchard et al., 2021; Popescu et al., 2022).

- *Fiscal coordination*

In the EU, 27 tax systems belonging to the 27 member states co-exist, with important differences between them in terms of fiscal regimes. That is why the different fiscal regimes determine a fiscal competition through different tax rates with the most diverse consequences on investments and the workforce (Martin et al., 2021).

Fiscal competition can, however, exceed certain limits, a situation that can become harmful by distorting free competition within the single market. Therefore, the objective of the EU is to reduce the level of taxation in order to create a fair and transparent fiscal competition. Fiscal policy must contribute to the achievement of the EU's general objective of making the EU economy the most competitive and dynamic in the world (Carniti et al., 2019). Economic growth is in the center of attention, entire nations continue to see it as an extremely important economic and political objective, the only factor that ensures the economic success of a nation in the long term.

At first sight, we are tempted to limit the definition of economic growth to the growth of the gross national product per inhabitant; but, it is better to characterize economic growth by increasing the standard of living (Bodislav et al., 2021).

In general, there is a consensus on the need for economic growth. Growth theories and models highlight different ways in which the present activity influences the future one and identify the sources that can lead to continuous growth (Jianu et al., 2019). These theories have evolved over time, depending on the dynamics of economic reality and the evolution of economic analysis tools (Bodislav et al., 2020).

Economic growth is a complex process, which targets the economic system as a whole and in its dynamics (Bran et al., 2020) In the issue of the content of economic growth, different opinions have emerged. Economic growth takes place in a certain spatial and temporal framework. By its content, economic growth means a positive, upward evolution of the national economy, but which does not exclude concurrence fluctuations, even temporary economic regressions. The appreciation that a national economy registers an economic growth is based on the existence of the real positive growth trend (Negescu Oancea, et al., 2020).

## Conclusions

Sustainable economic growth is supported by an efficient fiscal system that helps the state in continuous levies with a constant improvement in the level of tax efficiency. All the state's income sources must be designed with a safe and correct basis, thus new thresholds of taxation efficiency will be reached which further determine a real economic growth.

Tax cuts can have significant effects on production, investment and employment. However, if it is not followed by spending cuts, especially those on social protection, tax cuts may not be sustainable in the long term. The need to frame tax cuts in overall economic reforms is also important to increase the beneficial effects of shifting the tax burden from labor taxes to other tax bases.

The fiscal system plays an important role in achieving the economic and social objectives of the state. In this sense, the main objectives to be aimed at are: obtaining a high fiscal yield for the taxes collected; carrying out a process of distribution of the collected resources in such a way as to obtain a maximum effect in use; recording a high level of collected revenues (a negative aspect that has accompanied the Romanian economy in the last decades is the reduced capacity to collect owed revenues); compliance with the fundamental principles of any coherent and efficient fiscal system; stabilization of the economy affected by the action of disruptive factors; regulation of production in relation to the existing economic situation, including its modernization and restructuring and the sustainable development of society; combating the phenomenon of tax evasion; thorough substantiation of fiscal measures to avoid negative effects generated by legislative changes not anchored in the realities of the Romanian economy; the formulation of long-term financial policies, which ensure a stability of the business environment; ensuring the neutrality of fiscal measures.

Direct taxation remains an important instrument at the disposal of the state that can stimulate the economic environment through tax quotas, the facilities granted for the purpose of making investments in important fields or stimulating production.

The budget revenues decreased, and the Governments reacted differently by adopting solutions to the existing problems, the austerity measures imposed in each country have as their final goal the savings, the reduction of the total expenses of the state budget. The measures include the reduction of unemployment allowances and other social programs, layoffs in the public sector, reduction of wages, increase of income tax, introduction of new taxes, increase of the VAT rate.

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