

Fiscal Harmonization and Economic Integration in the European Union

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Abstract

Since the foundation of the European Economic Community there is an incessant debate about the necessity of an overall tax and fiscal cooperation and harmonization in Europe, which recently has been intensified mainly because of EMU. By reviewing the literature, this article argues that closer cooperation in tax issues, for both indirect and direct taxation, needs to accompany the current state of integration in the EU.

Advances have taken place in indirect taxes, value added tax (VAT) and excises. With respect to VAT, the major agreements were achieved with the Sixth VAT Directive (1977) and the agreements on rates after the elimination of the frontier controls (1992).

In the case of excise duties, the progress have been less significant and there can be noted only the agreements of minimum rates for alcohol, tobacco and energy (fuels).

In direct taxation, it is necessary to point out that the powers are national and the EU is limited to guaranteeing the performance of the single market. Community legislation is centered on company taxation and the taxation of savings income.

Taxes and social security contributions strongly influence patterns of saving, consumption, investment and employment, and thus shape the operation of markets for goods, services, capital and labor. The reforms launched by the Cardiff European Council of June 1998 are designed to ensure that the differences between systems that have become even

more apparent since the introduction of the euro do not hamper trade, result in fragmentation of the single market or prevent the efficient allocation of resources.

Tax fraud is another problem of increasing concern in the Community. European Parliament and Council Decision 888/98/EC instituted a program (Fiscalis) to improve the operation of indirect taxation systems in the single market and to secure wide-ranging and effective cooperation between Member States and with the Commission, and to improve administrative practice. International VAT fraud, particularly on sales and deliveries within the EU, has led to serious losses of revenue.

Only through closer coordination of national tax policies a balance can be struck between the diversity of Member States' tax and social contribution systems and the right to the freedom of establishment and movement throughout the EU. In a monetary union, with one currency and common policies, a larger harmonization and coordination of the fiscal policies are forced.

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