European Commission

Tax Policies in the European Union

2018 Survey

Taxation and Customs Union

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Acknowledgements

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Foreword

The European Union (EU) continues to make progress towards a sustainable recovery, with a return to robust economic growth and employment rates reaching record highs in some Member States.

In the last year, the social dimension of the EU has continued to rise up the agenda. With the Social Pillar now integrated into the European Semester process, it is important that we consider how taxation can help to tackle challenges related to inequality and social mobility. At the same time, the new global context and recent developments in international taxation have led to renewed concerns about our competitiveness. Therefore ensuring efficient taxation systems that are conducive to investment and employment also remains a key, without engaging in harmful competition. The need to tackle tax abuse and ensure a level playing field remains high on the agenda for citizens and politicians alike.

If we are to make real progress on improving the fairness and efficiency of tax systems in the EU, we must also look further forward. We are faced with transformative trends that will have profound implications for taxation, as well as many other policy areas. These include digitalisation and technological developments, as well as changes in the nature of globalisation, demographic change and important environmental challenges. We are making important progress on tackling some of the most pressing challenges related to digitalisation, but also need to reflect on the longer term impacts of these changes on our tax systems. In light of the on-going reflections on the Future of the EU, we should also consider the role of taxation in this wider debate.

The 2018 edition of the "Tax policies in the European Union Survey" presents an indicator-based analysis of the design and performance of the tax systems in the EU. New developments in this year's edition include a summary of important business taxation reforms in third countries, an analysis on taxation as an environmental policy instrument, a focus on the implications of new forms of work for labour taxation, the influence of the overall tax mix on progressivity, and the Commission's proposal for the taxation of the digital economy. Ultimately, it continues to put forward and substantiate the tax policy priorities for the next European Semester cycle.

This report provides reference points and insight to measure the progress that we will accomplish together to make taxation in Europe fairer and more efficient. I am sure that this report will provide policy makers across Europe with clear insights into challenges that lie ahead and with an excellent evidence base for action.

Stephen Quest

Director-General
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Executive Summary

The Tax Polices in the European Union Survey 2018 presents the state of play of taxation in the European Union (EU), alongside four tax priorities. These priorities, which underpin the country-specific analysis made in the context of the European Semester, are the following: (i) stimulating investment, (ii) boosting employment, (iii) reducing inequalities, and (iv) ensuring tax compliance. With those tax priorities in mind, this report identifies relevant indicators and potential improvements of tax systems, in terms of tax design, implementation and compliance.

In a context of relatively stable economic growth, new and continued trends, such as the increased digitalisation, the ever-accelerating globalisation and the ageing of our societies, become central in the work of tax policy makers. Tax systems need to be designed in a way that is sustainable and future-proof, harnessing the positive aspects of aforementioned trends and mitigating the negative ones. The indicator-based analysis in chapter 2 shows that some Member States have scope to do more to boost investment, support employment, mitigate inequalities, and/or ensure tax compliance. Generally, the situation in Member States differs. Therefore, potential tax policy responses have to be designed taking into account country-specific issues as well as the state of the tax system currently in place.

Tax reforms implemented in the Member States in the past 12 months are largely in line with tax developments in previous years. Headline corporate income tax (CIT) rates continue their downward trend in 2018, but fewer measures are taken to compensate those cuts by base broadening measures. After years of major changes, only few reforms in personal income taxation took place in 2018. Similarly, changes to consumption taxes were generally minor. Both reflects to some extent the economic recovery within the European Union, as the needs to balance public finances and/or stimulate job creation have eased compared to the recent past. In light of increasing public concern over inequality levels, some Member States increase efforts to improve the redistributive capacities of their tax systems. While some Member States took individual measures, the fight against tax abuse has also to be assessed against the backdrop of an increasing number of measures coordinated and taken at EU and international level.

Structure of the report

Chapter 1 provides a brief overview of recent taxation trends and sets out what makes a fair and efficient tax system. Recognizing that challenges are country-specific, Chapter 2 gives an overarching picture of how national taxation systems perform according to key indicators in the areas of investment, employment, inequality, and tax compliance. This aims to help Member States to find the best approach to address their own specific challenges and policy response. Chapter 3 reviews the most recent tax reforms in EU Member States, complemented by an overview of tax initiatives at EU level, and outlines some general tax policy reform options.

This year's edition of the Tax Survey highlights some selected topics, which are presented in thematic boxes throughout the report, discussing developments in International business taxation (Box 2.1), Specific issues of environmental taxation (Box 2.2), Emerging forms of work and implications for taxation (Box 2.3), the Progressivity of the tax mix (Box 2.4), Inheritance & gift taxes (Box 2.5), and Estimating the CIT gap (Box 2.6).

Where available and relevant, the average for the EU-28 is presented alongside the country-specific data. This is intended to assist readers in understanding the relative levels in different Member States and should not be interpreted as suggesting that the EU average represents an ideal level.

1 General principles for fair & efficient tax systems

The increasing digitalisation of our economy, combined with the continued globalisation, bears the potential to permanently change the way we work and live. Furthermore, Europe is ageing fast and will be the "oldest" region in the world by 2030. All of this is likely to substantially impact on long-term growth and on our abilities to share benefits of progress.

The White Paper on the Future of Europe[1], and the subsequent reflection papers on the Social Dimension of Europe[2] and on Harnessing Globalisation[3], invite us to reflect on ways to deliver inclusive economic growth in the light of these evolutions and taking into account the legacy of the crisis.

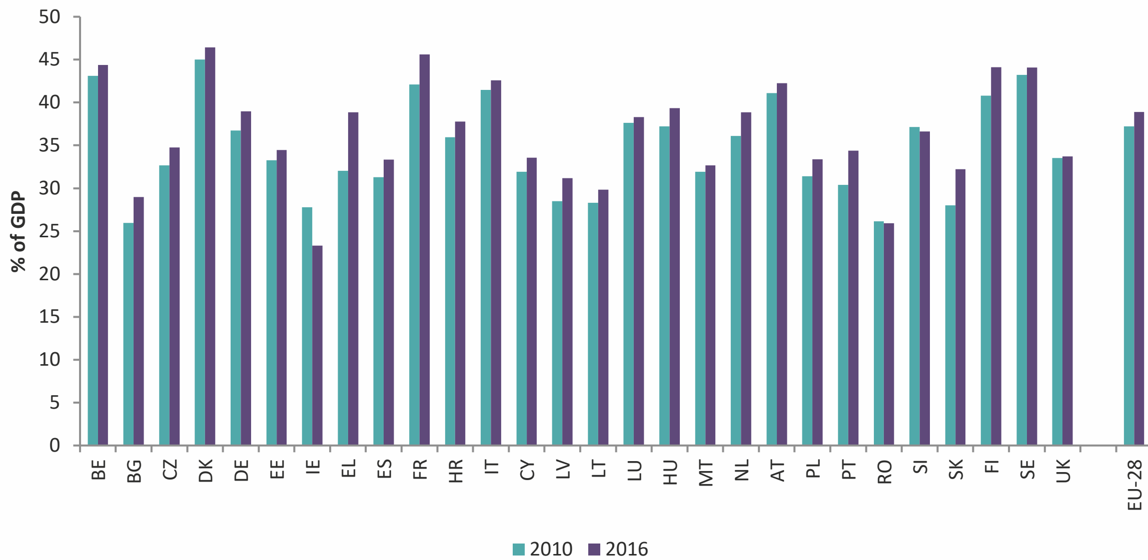
Tax policy has a role to play in shaping our economy and our society, by encouraging investment, supporting employment, mitigating inequalities or ensuring that all taxpayers contribute their fair share. An 'optimal' design involves taking trade-offs into account and necessitates prioritisation of objectives according to specific situations and choices of Member States. To ensure its legitimacy, public buy-in is crucial for tax reforms.

[1] European Commission, 2017a
[2] European Commission, 2017b
[3] European Commission, 2017c

1.1 Recent trends in taxation[4]

The level of taxation largely reflects social choices in terms of tax revenues and government expenditure. Strong evidence is lacking on the impact of the overall level of taxation on economic growth.[5] Since 2010, the total tax revenue as a percentage of the gross domestic product (GDP) has increased in most Member States. However, the level of total taxation differs considerably between Member States. In 2016, the tax-to-GDP ratio varied between 46.4 % in Denmark and 23.3 % in Ireland.

Graph 1.1: Total receipts from taxes and compulsory actual social contributions, 2010-2016



Source: European Commission (2018a) based on Eurostat data

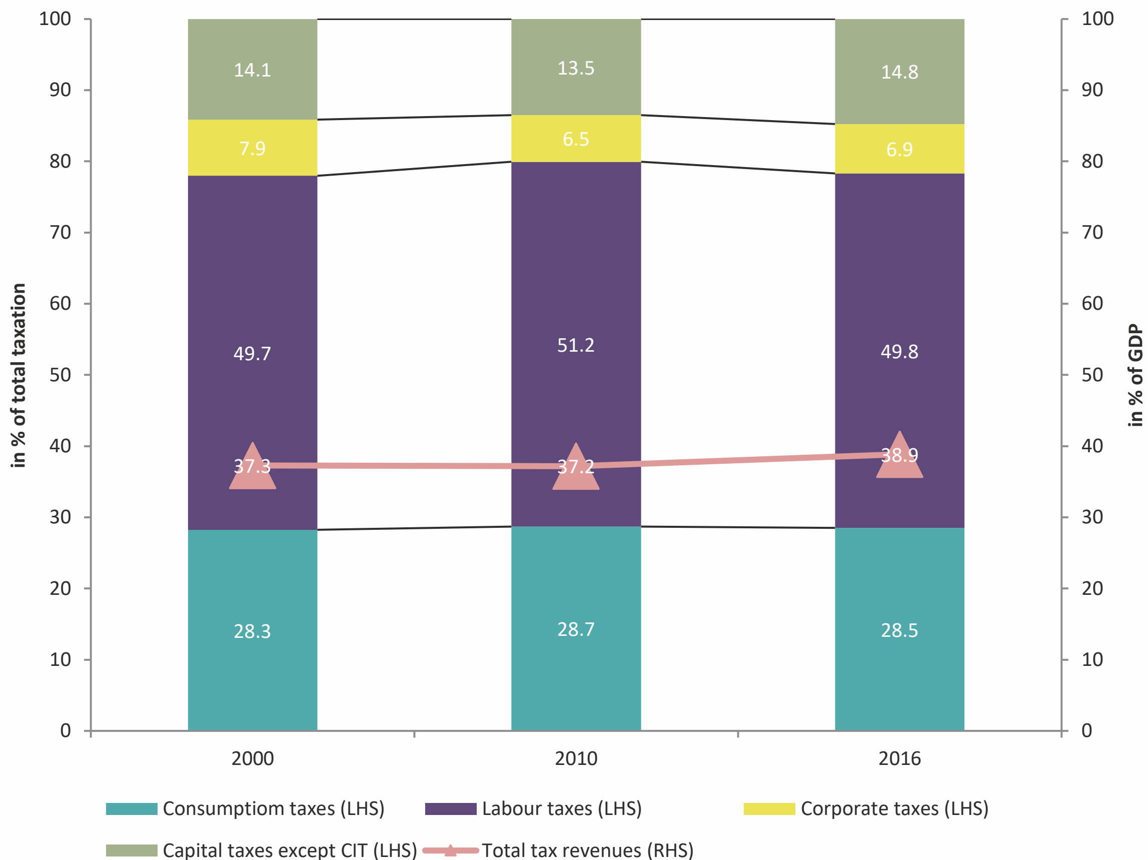
[4] More information on taxation trends and figures can be found in the Taxation Trends Report 2018 published by DG TAXUD. This report contains a detailed statistical and economic analysis of the tax systems of the 28 Member States of the European Union, plus Iceland and Norway.

[5] Myles, G., 2009

As depicted in Graph 1.2, the share of consumption tax revenues as part of total tax revenues remained more or less stable in the last 15 years. The share of labour taxes increased in the period from 2000 to 2010 and decreased again in the following six years, reaching again roughly the same level as in 2000. In contrast, the share of capital taxation, including corporate taxation, decreased from 2000 to 2010 and increased again afterwards.

The overall level of tax revenues (as a % of GDP) decreased marginally comparing 2000 and 2010 – after a gradual increase until 2008 and a drop following the crisis. Following economic recovery, EU-28 tax revenues (as a % of GDP) have been increasing again since 2011, reaching 38.9% of GDP in 2016.

Graph 1.2: EU-28 tax revenues, 2000, 2010, 2016

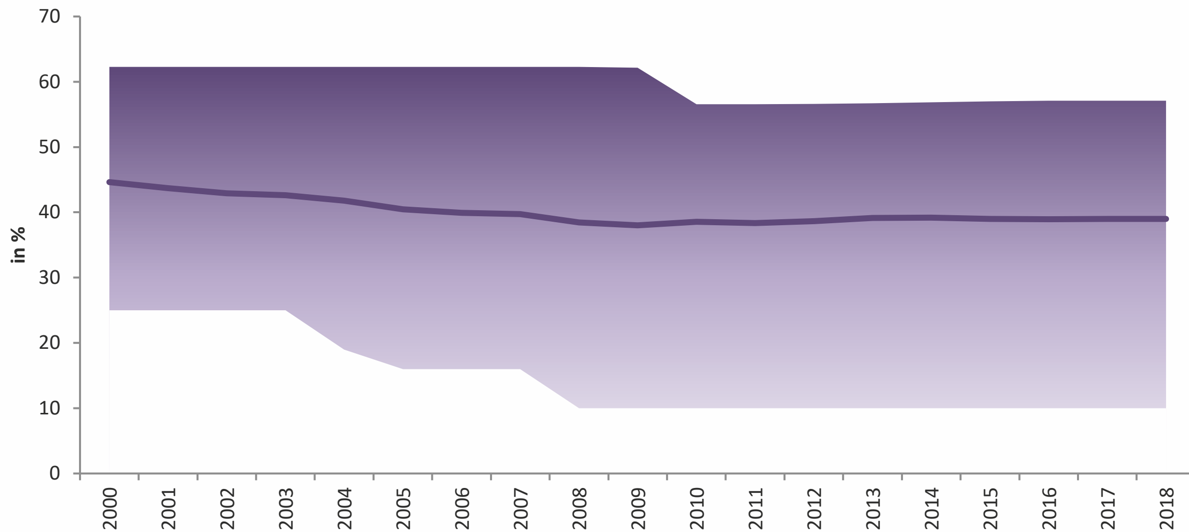


Source: European Commission (2018a) and European Commission (2012) based on Eurostat data

Note: For the purpose of this graph, 'Capital taxes except CIT' includes all other categories not classified as labour, corporate or consumption. Labour taxation includes employers' and employees' social contributions.

As illustrated in Graph 1.3, the EU-28 average of the top personal income tax (PIT) rates had been in constant decline until 2009. 2010 was the first year after more than a decade in which more Member States raised the top PIT rates than reduced it. Since then the average has been relatively stable.

Graph 1.3: Top PIT rate - EU-28 average and range, 2000-2018

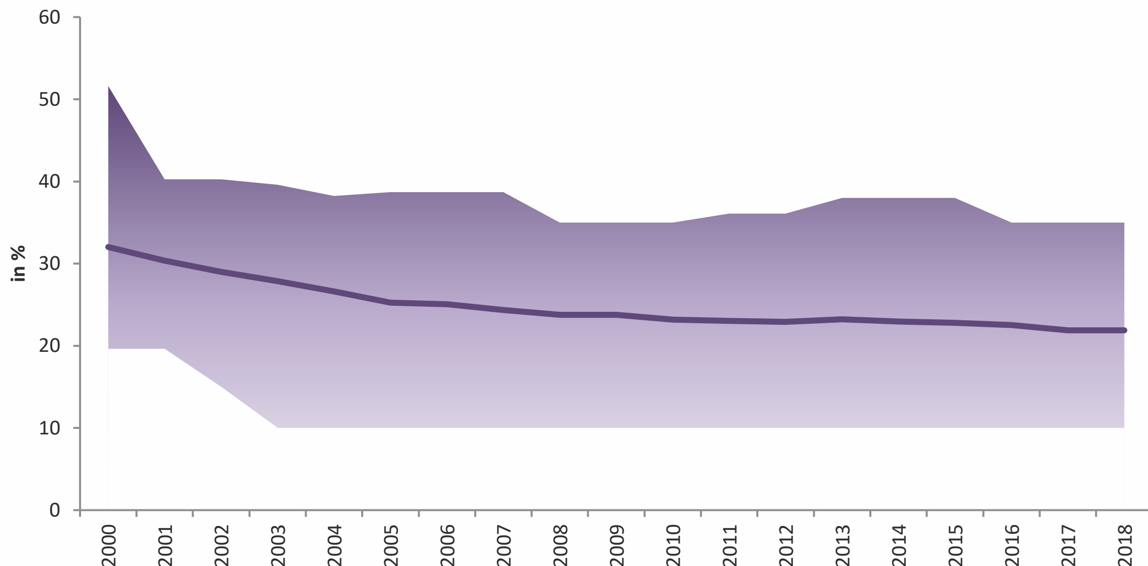


Source: European Commission (2018a)

Note: The average is calculated as the simple average of the 28 national top personal income tax rates including surcharges.

As shown in Graph 1.4 the top corporate income tax (CIT) rates were in constant decline in the European Union in the last two decades. The decline of CIT rates slowed down after the crisis, and has levelled off in 2018 (see box 2.1).

Graph 1.4: TOP CIT rate – EU-28 average and range, 2000-2018

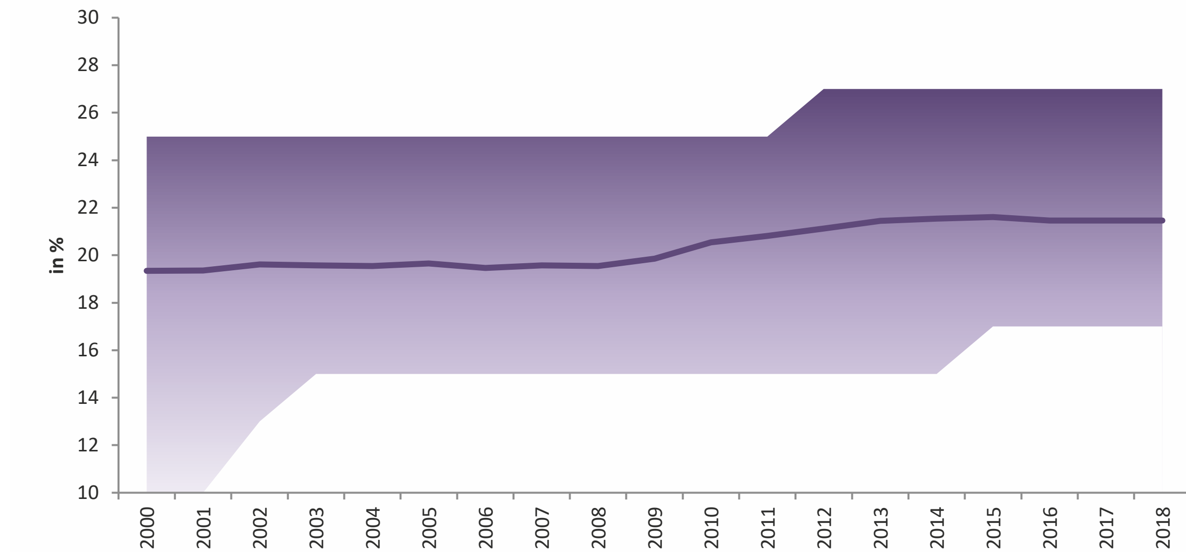


Source: European Commission (2018a)

Note: The average is calculated as the simple average of the 28 national top corporate income tax rates including surcharges.

While one could observe increases of standard value-added tax (VAT) rates in numerous Member States in post-crisis years (2010-2013), the average of the standard VAT rates has remained stable since 2013; however, on a higher level than in pre-crisis years.

Graph 1.5: Standard VAT-Rate – EU-28 average and range, 2000-2018



Source: European Commission (2018a)

Note: The average is calculated as the simple average of the 28 national standard value-added tax rates

1.2 What makes a fair and efficient tax system?

The primary purpose of taxation is to fund government spending by re-allocating funds from taxpayers (citizens/businesses) to the government. The general aim of public revenue collection and spending should be to maximise social welfare. This implies securing the funding for welfare improving public goods, notably in markets with significant market failures[6] (e.g. education, healthcare, social protection and infrastructure). Therefore, a well-functioning tax system is required to secure the financing of the various public functions. This concerns both questions about the 'size of the cake' and a 'fair split of the cake'. Since any change in tax revenue also implies a change in government spending, it is clear that the two sides belong together.

Nonetheless, because taxation is costly per se and in most cases changes incentives for decisions (taking up a job, buying a pack of cigarettes, renting vs buying a house, investing money in x or in y) one can ask: how to collect a certain level of tax revenue in a way that maximises social welfare?

There are four main dimensions along which taxation can influence social welfare.[7]

1. Under 'normal' circumstances, economic decision-making in the absence of taxation is efficient. In these cases, most forms of taxation distort economic decisions away from the efficient choices, which leads to sub-optimal outcomes. There are many ways, in which taxation can distort decisions, including:

    a) Size, location and sector of investment
    b) Decisions about the financing of investment, e.g. debt vs equity
    c) Decisions related to the supply and demand of labour
    d) Decisions related to the nature and timing of consumption

2. That said, it is not only the 'size of the cake' that matters, but also the extent to which welfare is shared among members of a society. Taxation can be a powerful instrument of redistribution. Depending on measurement and policy goals, redistributive taxes, though distorting individually efficient decisions, can be welfare enhancing.

3. Sometimes, however, economic decision-making in the absence of taxation is neither efficient nor fair. In these cases, taxation can play a role in correcting for economic inefficiencies to the benefit of the society as a whole:

    a) Too much activity that harms others, e.g. environmentally damaging behaviour (smoking, driving a car, production sites that pollute the environment, selling products that are unhealthy), which might also lead to unfair burden-sharing across generations.

[6] Markets with market failures are those where the market, left to its own devices, results in resource allocations which do not maximise social welfare. Sources of market failures include positive (such as education) or negative (such as pollution) externalities; incomplete or asymmetric information (such as in health markets); and Public Goods (such as many types of infrastructure, or police and national defence). Public Goods are goods which have characteristics such that i) consumption by one individual does not preclude consumption by another (non-rivalry), ii) it is economically or technically impossible to restrict consumption by anyone and it is impossible for anyone to refuse its consumption (non-excludability).

[7] There is a variety of social welfare measures. For example, social welfare could be expressed by the sum of utility functions of all individuals in a given society. It could also be expressed by the utility function of the least well-off in a given society.

b) Too little activity that benefits others, e.g. investment in research and development (R&D) and innovation or spending on education, which is a key driver of upward social mobility.

4. Levying taxes is costly for administrations and for taxpayers who need to comply with them. An efficient tax administration minimises these costs.

All of this has to be legislated avoiding loopholes and including anti-abuse provisions. The legal framework has to be enforced in a way that taxpayers equally abide by the common rules.

Sometimes it is the decision-making by countries that may be inefficient because it does not take into account spillovers to other countries. For example, taxing greenhouse gas emissions in one country provides environmental benefits also to other countries. If a country does not take into account the benefit for the other countries, taxation levels will be too low. It also entails the risk of free-riding, leading to an unfair burden sharing between countries. In this case, a mechanism to ensure that all countries/regions tax sufficiently the activity could be overall welfare-improving.

Key features to look at in assessing the fairness and efficiency of a tax system are the extent to which it encourages investment and job creation, corrects inequalities, protects the environment, supports social mobility and achieves high-levels of compliance. Overall, whilst there are sometimes trade-offs between the goals of efficiency and fairness, the two are by no means in opposition.

1.2.1 Stimulating investment and growth

After some years of more subdued growth, investment has finally picked up in a more sustained way and is showing signs of a broad-based pick-up across countries. This recovery was supported by elevated business confidence, a high level of order books and capacity utilisation, improving corporate profitability, and low financing costs. The global upswing has also contributed to investment demand. But there are also risks related to a decelerating world, long-term interest rates gradually rising and uncertainty surrounding the external environment.[8] Weak investment means lower growth, but it also depresses productivity growth and entails poor job and growth prospects in the longer term. Supporting investment remains thus one of the Commission's top political priorities.

Many factors influence companies' investment decisions. Taxation is one important element of a well-functioning business environment that supports investments. In particular, designing an efficient tax system that does not discourage profitable investments from taking place is important. This can be achieved by keeping the effective marginal tax rate low. This does not necessarily mean that tax rates need to be reduced. Instead, faster depreciation schedules or allowing for the deductibility of equity financing costs brings down effective marginal taxation, even if compensated by an offsetting change in tax rates. Legal certainty, stability, predictability, and simplicity of tax rules matter for business and investors' decisions. Distortions in the tax system could affect access to finance and discourage equity investments.

Tax policies can play a role in reducing entrepreneurial risk and costs of carrying out entrepreneurial activity. Taxation helps correct market failures, for example in under-provision of R&D investment or risk finance and externalities to the environment. A well-designed tax system could thus help improve living standards by providing incentives for smart and green investment.

[8] ECB, 2016a

Tax compliance costs can discourage the creation of new businesses, incentivize the underground economy, increase non-compliance, and damage businesses' and countries' competitiveness.

Low compliance costs can be achieved through simple and stable tax systems and tax administrations that are both efficient and effective. This means being organised in a way that encourages voluntary compliance, but also ensure that non-compliant behaviour is detected with some likelihood. Ensuring voluntary compliance involves making paying taxes as easy as possible for taxpayers. It also means that taxpayer morale (the willingness to pay taxes) needs to be good. This in turn is easier with a tax system that is perceived as fair and a high level of trust in the government.

1.2.2 Developing a more employment-friendly environment

As economic recovery has continued and accelerated, unemployment has continued to fall and is now at its lowest level since 2008. Employment has also expanded and has reached its highest ever level in the EU and euro area. However, the total number of hours worked has not yet regained its pre-crisis level. There are also large disparities in labour market performance between Member States. Long-term unemployment and the situation of harder-hit groups are still problematic. In addition, despite increasing employment levels, labour market performance of women remains a challenge, with the gender employment gap remaining broadly stable since 2013.[9] The joint trends of globalisation, digitalisation and ageing will continue to bring about changes in European job markets, with likely implications for tax systems.

Labour tax cuts can be a tool for promoting higher levels of employment, in particular where high labour costs discourage hiring (i.e. labour demand issues) or where incentives to take a job are low when work does not pay (i.e. labour supply issues). Targeted labour tax reductions working in concert with the tapered withdrawal of benefits for vulnerable groups can contribute to increasing employment levels for those excluded from the labour market, as well as reducing poverty and social exclusion. In addition, certain groups, such as second earners, are more responsive to changes in labour taxation.

Reducing taxes on labour can be balanced by increasing taxes elsewhere. Several economic papers[10] suggest that corporate and personal income tax have a stronger negative impact on growth than other taxes, although some more recent literature nuances this conclusion. Shifting taxation to other tax bases might be worth exploring. The potential room for a tax shift depends on the existing tax structure. High levels of labour taxation together with a relatively low tax burden on consumption taxes, recurrent property taxes, or environmental taxes may indicate room to shift taxes away from labour. The distributional impact of increasing taxation in these areas, however, needs to be duly taken into account.

1.2.3 Correcting inequalities and promoting social mobility

Although economic conditions have been improving in recent years, many Member States are still facing pronounced income and wealth inequalities. In 2016, 23.5 % of the EU population was at risk of poverty or social exclusion, with around 1 in 6 at risk of monetary poverty. There are significant differences in both levels and trends between Member States. This being said, Europe has among the world's most advanced systems of welfare states.

[9] European Commission, 2018b
[10] e.g. OECD, 2010

Taxation has a central role to play in shaping a fair society, including by securing the right mix of revenues to finance public expenditure, by mitigating inequalities, or by supporting social mobility and intergenerational fairness.

Mitigating inequalities and promoting social mobility require broad policy packages, from the way revenues are collected to the provision of public goods and targeted social spending. The design of the system plays a key role. Beyond income taxation and social benefits, the overall structure of the tax system can play a role in reducing inequalities and fostering social cohesion. Ensuring a coherent and effective progressivity of the overall tax burden faced by citizens according to their income sources can at best help to correct market income inequalities and at least avoid increasing them.

1.2.4 Fighting against tax fraud, evasion and avoidance

Tax fraud, tax evasion, and tax avoidance limit the capacity of Member States to raise revenues and to carry out their economic and social policy. Tax avoidance has clear negative spillover effects as profits shifted to or through one Member State mean tax base loss for another Member State. This effect is even larger in the euro area. Furthermore, it weighs on tax morale, threatens the social contract and increases inequalities. It also distorts the level playing field between companies. While it is difficult to precisely quantify the scale of tax evasion and avoidance, there is a general consensus that it is substantial, with tens of billions of euro lost each year.

Tackling tax evasion and fraud, whilst removing loopholes and mismatches that facilitate aggressive tax planning is essential to secure tax revenues that could be used for public spending (for education, healthcare or welfare) or for lowering the tax burden on honest taxpayers. It also contributes to levelling the playing field across companies.

The cross-border nature of tax abuse and the integration of the Member States' economies call for a coordinated approach, not only through European initiatives but also through the coordination of national policies. Member States can tackle tax abuse through increased transparency and cross-border cooperation, a more modern and digital tax administration and by facilitating and promoting a culture of compliance.

2 National tax systems performance

At national level, there is no one-size fits all approach. Each Member State needs to find the best approach to address its country-specific situation. The following chapter presents a range of indicators covering aspects of the tax systems of EU Member States in order to help Member States to find the best approach to address their own specific challenges and policy response.

2.1 Encouraging investment

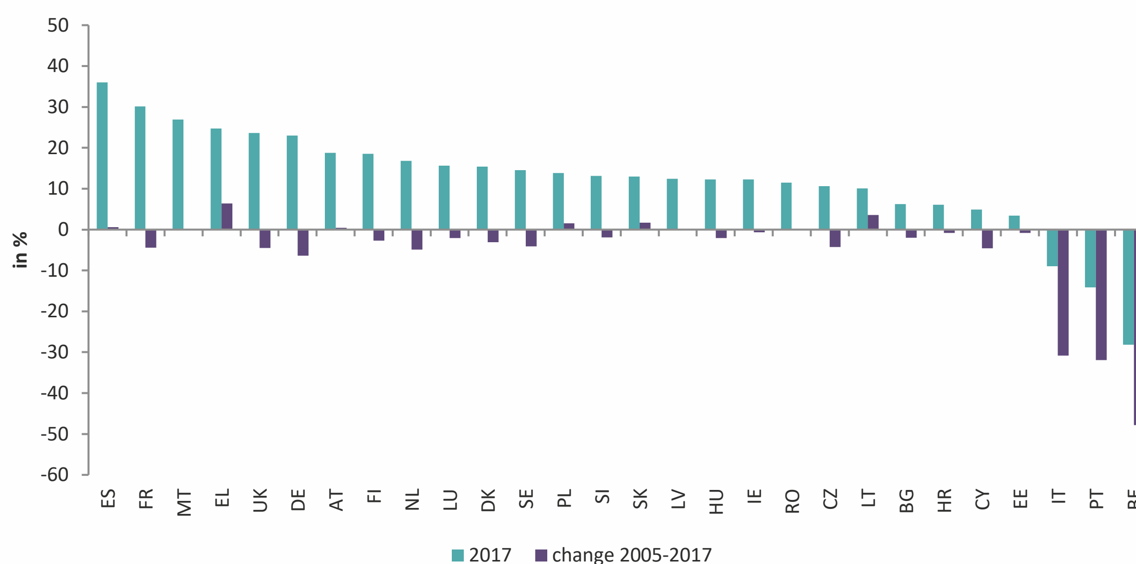
As outlined in section 1.2, taxation is one of the factors influencing companies' investment decisions. This section examines features of Member States' tax systems likely to influence decisions on investment, looking at indicators on effective tax rates, debt-bias in corporate taxation, tax incentives for R&D, environmental taxation, tax certainty and administrative efficiency.

2.1.1 Effective tax rates

The effective marginal tax rate influences decisions whether to invest less or more. The effective marginal tax rate (EMTR) is calculated as the tax burden on the last euro invested in a project that just breaks even (the 'marginal' investment).[11] It captures a wide range of factors going beyond the statutory corporate taxes, such as elements of the tax base, the source of financing (debt, retained earnings or new equity), and the asset in which the investment is made (machinery, buildings, intangibles, inventory and financial assets). The smaller the effective marginal tax rate the more a tax system is conducive to promote corporate investment.

There are several ways to decrease the EMTR and design a tax system supportive of investment. Possible examples are offering faster depreciation schedules, making equity costs deductible, or improving conditions for carrying losses forward into the future. Corporate taxes can be distortive and affect the level of investment. Corporate taxes also have an impact on business location, profit shifting, and the choice of company structure. By lowering the effective marginal tax rates on equity and R&D expenditures, one can increase investment, reduce the tax-induced debt bias and increase R&D spending, respectively. Addressing the tax-induced debt bias and R&D tax incentives can lower effective marginal tax rates for equity and R&D investments respectively. For example, the reduction in the EMTRs for Belgium, Italy, Portugal and Cyprus (Graph 2.1) stems from the introduction of an Allowance for Corporate Equity (ACE) in each of these countries.

Graph 2.1: Effective Marginal Tax Rates in the EU, 2005-2017



Source: ZEW (2017).
Notes: (1) The indicator is based on Devereux/Griffith model which allows the consideration of five types of assets and three sources of finance at corporate and shareholder level. This methodology has been applied to calculate the effective tax rates in the EU annually since 1998. Full dataset is available at http://ec.europa.eu/taxation_customs/common/publications/studies/index_en.htm.
(2) To reflect the Allowance for Corporate Equity in Belgium, Italy, Portugal and Cyprus the assumption is that the rates of these allowances equal the market interest rate in the model.

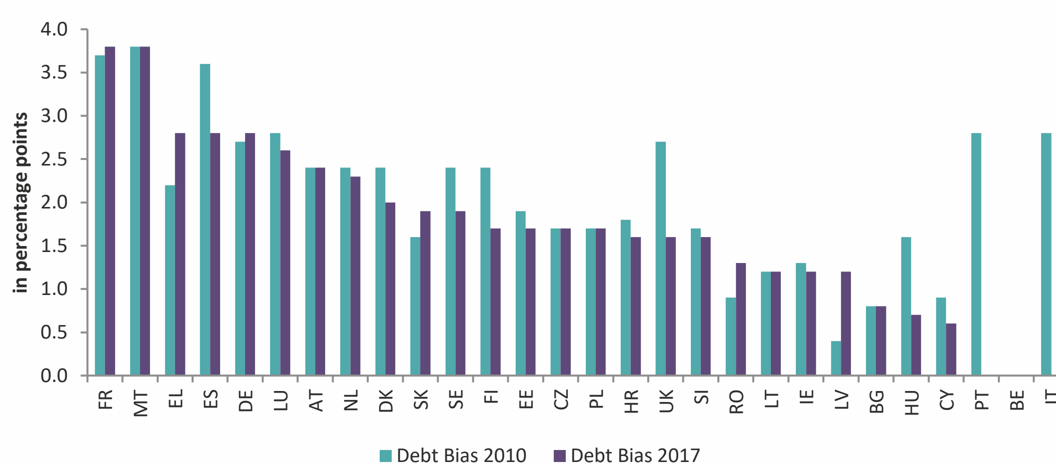
[11] Whilst the effective marginal tax rate affects the intensity of investment, the effective average tax rate (EATR) influences firms' decisions as where to undertake their investment (see Devereux, 2007).

2.1.2 Debt-bias in corporate taxation

Most corporate tax systems give incentives to companies to take on more debt by allowing interest payments to be deductible, but do not grant similar treatment to equity. Because a debt-financed investment enjoys a preferential tax treatment, the minimum pre-tax return required to make this undertaking worthwhile (the 'cost of capital') will be lower than for an equity-financed investment. The size of this debt bias differs across the EU (as shown in Graph 2.2). It leads to higher debt levels, which render companies, both non-financial and financial, more fragile. As a result, tax-induced corporate debt bias contributes to financial stability risks, for instance by increasing the probability of bankruptcy,[12] making economies more prone to crises. The higher cost of equity finance is particularly problematic for young and innovative companies, which often have no access to external debt funding. This is compounded by limited access to alternative sources of finance, for instance venture capital funding. Several member states have introduced targeted tax incentives to promote venture capital and business angel funding. However, for the moment these types of finance represent a small proportion of the total funding mix. Consequently, small and innovative businesses might be at a disadvantage, despite their importance to generating future growth. The debt bias therefore presents an obstacle to the creation of a stronger equity base in European companies and may impede efficient capital market financing. This goes against the fundamental goals of the Capital Markets Union. In addition, multinational enterprises also exploit the asymmetric tax treatment of debt and equity in order to strategically organise their debt and reduce their overall tax burden.[13]

The graph below shows the debt bias in corporate taxation measured as the difference in cost of capital for new equity and debt investment.

Graph 2.2: The debt-equity tax bias in corporate financing in EU Member States, 2010-2017



Source: ZEW (2017).

Notes: (1) The cost of capital measures the required minimum pre-tax return of a real investment (the 'marginal investment') to achieve the same after-tax return as a safe investment in the capital market. The assumption for the real return on the safe investment is 5%. (2) To reflect the Allowance for Corporate Equity in Cyprus, Portugal, Belgium and Italy, the assumption is that the rates of these allowances equal the market interest rate in the model. For Cyprus, there remains a small bias since the allowance does not apply to investments in financial assets.

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[12] Sutherland and Hoeller, 2012

[13] This has been addressed by the Anti-tax avoidance directive (see also section 3.2.1.3 on recent EU initiatives to tackle tax abuse by multinationals).

Different types of reforms can address the corporate debt bias. One possibility is to limit or abolish the deductibility of interest costs (e.g. Comprehensive Business Income Tax - CBIT reform or thin capitalisation rules). Another possibility is to extend the tax deductibility to also include the return on equity (e.g. Allowance for corporate equity – ACE reform, also called Notional Interest), or to instead grant tax deductions irrespective of the mode of financing (e.g. Allowance for Corporate Capital - ACC and cash flow taxation).[14] Each of these reforms addresses the debt bias, but they affect the cost of capital differently. CBIT reforms would extend the taxable base to the normal return (roughly, what an alternative safe investment would yield) for debt finance. This in turn increases the effective marginal tax rate and reduces investment, even if accompanied by budget-neutral changes in the statutory tax rate. In contrast, exempting the cost of equity from taxation, the ACE, reduces the effective marginal tax rate and shifts the tax burden towards the part of returns exceeding these normal returns. It hence not only tackles the debt bias but also supports investment activity.

In practice, however, both the characteristics of ACE schemes and the underlying motivations are heterogeneous. Table 2.1 depicts current ACE schemes in place in the EU.[15] Apart from its favourable properties from an economic point of view, an ACE scheme can also constitute a vehicle for aggressive tax planning by multinationals.[16] The three ACE elements driving its potential attractiveness for aggressive tax planning purposes are 1) the applied notional interest rate, 2) the definition of the deductible amount of equity and 3) the absence of comprehensive anti-abuse provisions. As shown on table 2.1, applied notional interest rates can vary substantially. Ideally, the notional interest rate should approximate the normal return to debt, i.e. the riskless interest rate. This rate could be increased with a risk premium. Given the different economic situations in Member States, this provides a first source of variation. In Cyprus, another source of variation stems from the notional interest rate instead relating to the domestic rate in the country where the funds are invested. Second, the equity base can be broadly categorised into two different types: either the full amount of equity is applicable, or only new equity can be deducted (i.e. so-called incremental ACE schemes). While both types offer the same economic incentives to reduce debt and increase investment, the former additionally grants windfall profits to firms, and is as such conducive to tax planning practices. Third, implementing safeguard measures against abuse of ACE schemes is especially important when dealing with (possibly multinational) corporate structures. These measures should prevent e.g. intra-firm cascading of multiple ACE deductions, or the intra-firm conversion of debt into equity for tax planning purposes.[17]

Any reform needs to be well designed in order not to leave room for tax planning and distortions of competition. Empirical evidence on the evaluation of multiple ACE schemes in EU Member States suggest that they have at large proven effective in reducing the debt bias.[18] However, it is important that they contain strong and comprehensive anti-abuse provisions to avoid that companies use them to engage in aggressive tax planning. The Commission's proposals for a

[14] Under a cash-flow tax system investment gets immediately expensed instead of depreciated over time. Under an R-base system, only 'real' operations count and financial flows (paid and received) are not part of the tax base. Estonia currently has a cash-flow system in place that only taxes company profit when distributed as dividends (so-called S-base system). A cash-flow tax had initially also been considered for the 2017 Corporate Tax Reform in the US. However, in its final version the adopted proposal only includes a temporary cash-flow tax.
[15] In 2017, Denmark announced to implement an ACE regime in 2018.
[16] Hebous & Ruf (2015) show that the implementation of the Belgian ACE regime in 2006 led to a substantial shift of (passive) equity by German multinationals, an indication of profit shifting.
[17] See Zangari (2014) for a comparison of the anti-abuse provisions in place for the Belgian and Italian ACE schemes at the time.
[18] See for example Branzoli & Caiumi (2018) and Princen (2012).

Common Consolidated Corporate Tax Base (CCCTB)[19] remove the debt bias, by offering an Allowance for Growth and Investment (AGI) (see chapter 3.2.1.1). It is a tax deduction for companies that choose to finance new business activities through equity instead of debt. The deduction is calculated by multiplying the change in equity by a fixed rate, which is composed of a risk-free interest rate and a risk premium. The measure, as proposed by the Commission, also include anti-avoidance provisions.

Table 2.1: Overview of existing Allowances for Corporate Equity in the European Union

Country	Period	Details	Notional interest rate (2018)	Tax Base (2018)
Belgium	Since 2006	In 2013, new legislative changes eliminated the carry-forward of unused allowances. Small firms receive an additional 0.5% risk premium on their notional rate. The rate was initially capped at 6.5% and is now limited to 3%. Since 2018 the deduction does not apply to the full equity stock anymore.	0.2%	New equity
Italy	Since 2011	The notional return is calculated as the amount of increase in equity over a 2010 base equity amount. While the notional interest rate was 3% from 2011-2013 and above 4% from 2014-2016, it was reduced to 1.6% in 2017.	1.5%	New equity
Portugal	Since 2017	The notional return is deductible up to EUR 2 million, and capped at 25% of firm EBITDA. It applies to capital increases for a period of 5 years, conditional on no capital reduction taking place during that period.	7.0%	New equity
Cyprus	Since 2015	The applicable new equity is calculated over 2015 as a base year. The notional interest deduction is limited to 80% of EBIT and only applies to fully-owned subsidiaries if their assets are used for business (i.e. non-financial) purposes. The notional interest rate is the 10 year government bond rate of the country where funds are invested plus a 3% risk premium. The minimum government bond rate is the 10 year Cypriote government bond rate.	min. 6.5%	New equity
Malta	Since 2018	Notional interest deduction limited to 90% of chargeable income, which can be carried forward indefinitely. The notional interest rate is set to the rate of 20 year Maltese government bonds plus a risk premium of 5%.	7.0%	Full equity stock

Source: Desk research by Commission services based on publicly available data from national ministries of finance and KPMG reports.

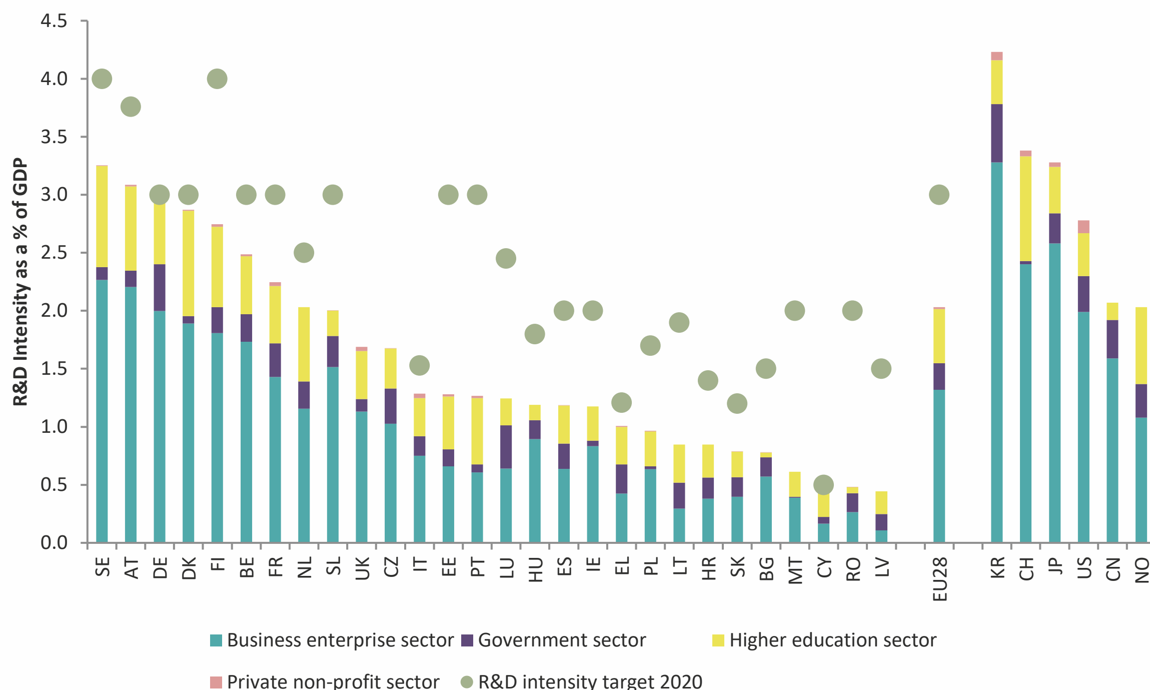
[19] Directive 2016/683/EU

2.1.3 R&D tax incentives

R&D investment is a key driver of long-term productivity and economic growth. However, private companies do not sufficiently invest in R&D from a welfare perspective. The reason is that companies do not take into account the positive externality from knowledge spillovers which benefit the whole economy. Indeed, the social returns from R&D investment are estimated to be two to three times higher than the private returns of firms.

The underinvestment in business R&D is particularly pronounced in the EU and is one of the possible reasons behind the widening of the EU's productivity gap compared to the United States (US). Given the existing level of R&D spending in the EU, a compound annual growth rate of over 10% per year of R&D intensity over the period would be needed between 2016 and 2020 to reach the Europe 2020 target of 3 % of GDP devoted to R&D by 2020.[20] Based on projected growth patterns, it seems highly unlikely that the EU will meet this target.[21] The shortfall mainly reflects a deficit in business R&D expenditure. Whereas governments also support private R&D activities through direct grants, taxation is increasingly used to support business R&D investments, since it represents an opportunity to both favour investment and direct it toward knowledge-intensive activities.

Graph 2.3: R&D intensities by sector, 2016[(1)] and R&D intensity targets for 2020



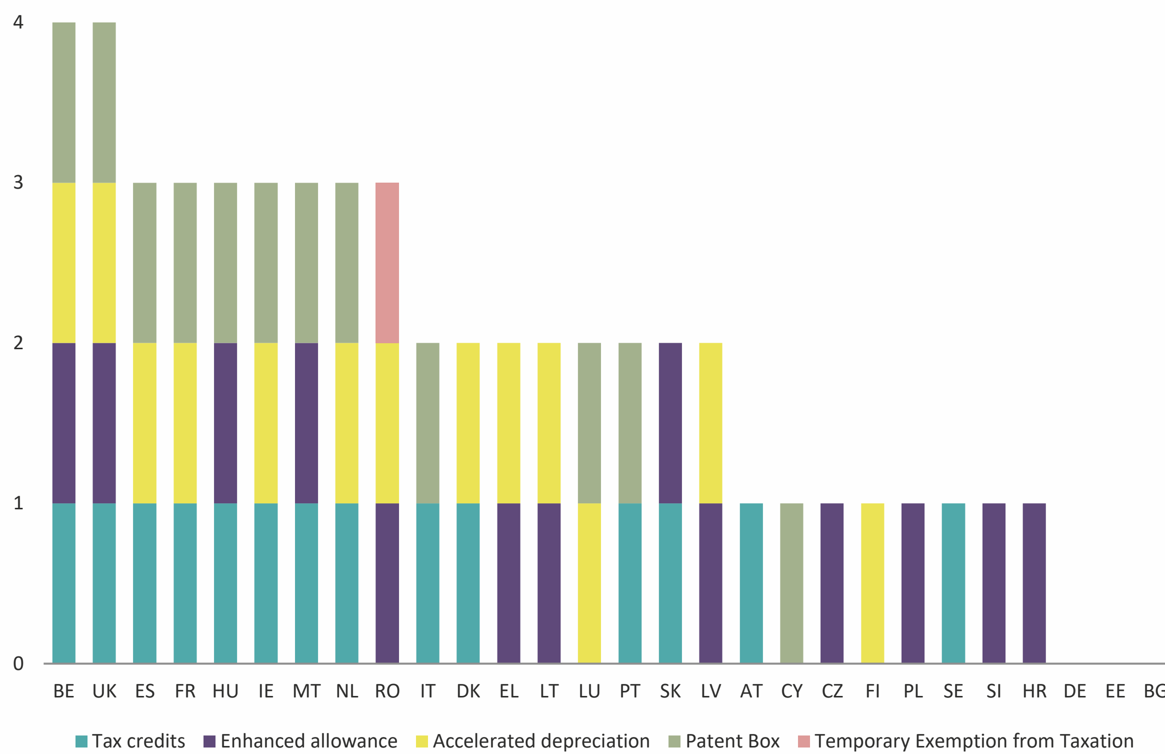
Source: DG Research and Innovation for targets and Eurostat (rd_e_gerdtot).

Notes: (1) CZ: An R&D intensity target (of 1 %) is available only for the public sector. (2) UK: An R&D intensity target for 2020 is not available. (3) IE: The national R&D intensity target of 2.50 % of GNP has been estimated to equal 2.00 % of GDP. (4) LU: The R&D intensity target for 2020 is between 2.30 % and 2.60 %. A target of 2.45 % was used. (5) PT: The R&D intensity target for 2020 is between 2.70 % and 3.30 %. A target of 3.00 % was used. (6) Total R&D expenditure is divided into four sub-sectors of performance: business, government, higher education and private non-profit. This is in accordance with the 'FRASCATI 2015 manual – Guidelines for collecting and reporting data on research and experimental development' (8) R&D intensity is defined as R&D expenditure as % of GDP. (9) Values for KR, CH, JP, US and CN are for 2015.Well-designed R&D tax incentives stimulate R&D investment and innovation. Tax allowances or credits based on real R&D costs (i.e. expense-based R&D tax incentives) are preferred to output-based schemes such as patent boxes.[22]

[20] European Commission (2018d)
[21] European Commission (2018d)
[22] CPB, 2014

Patent/IP boxes give a tax break on the output from R&D activities i.e. earned from exploiting intellectual property rights, sometimes without any specific requirement for the beneficiary to have conducted any underlying R&D activity.[23] Research shows that they do not stimulate R&D[24], but may rather be used as a profit-shifting instrument, leading to high tax revenue losses often mostly for the benefit of larger multinational companies. One other issue is that IP boxes only apply to a limited set of innovations. For example, they only provide incentives to R&D projects that are expected to produce an IP right. In some industries (e.g. manufacturing), patents are not widely used as they are not seen as an effective form of promoting innovation. Further, as they only reward successful projects, they do not reduce risks. In 2017, 25 Member States used tax incentives to encourage investment in R&D. The chart below shows which types of tax incentives are used in each Member State.

Graph 2.4: Number of R&D tax incentives in the EU countries, 2017



Source: CPB (2014) and update by the Commission services.
Notes: (1) No R&D tax incentives in BG, DE, and EE. (2) The incentive can apply to corporate and personal income taxes, social security contributions and payroll taxes. (3) The graph only depicts tax incentives. Direct support is not included.

Innovation happens in complex systems. To take full advantage of the opportunities offered by the tax support, governments need to coherently mobilise a range of direct and indirect support policies and engage in complementary interventions in their national research and innovation systems.[25] For example, companies that want to invest more in R&D may lack access to external finance, qualified

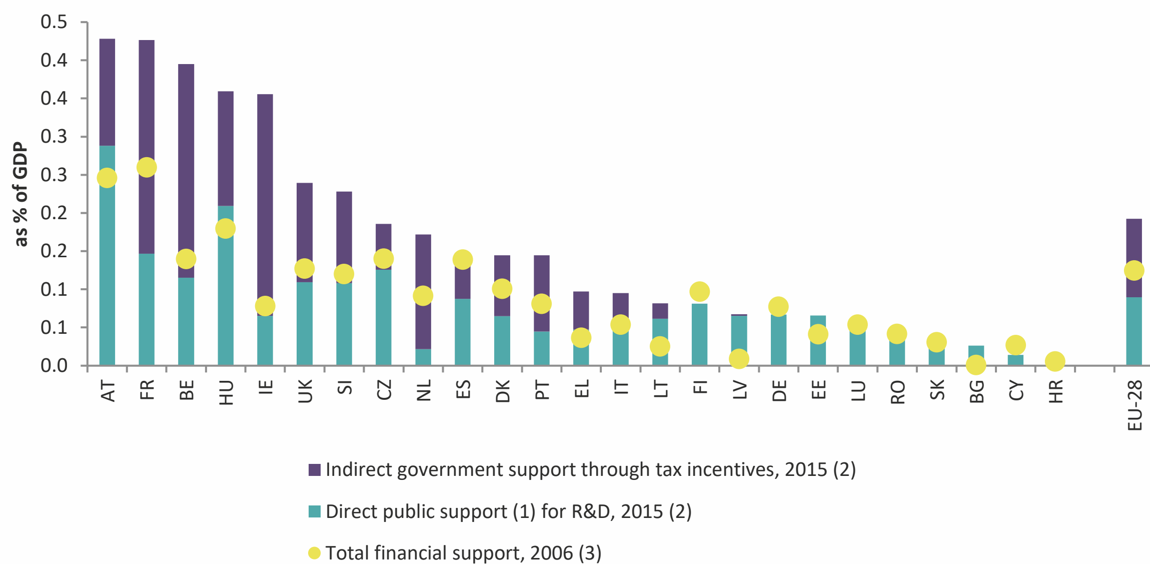
[23] To address this issue, the Organisation for Economic Cooperation and Development (OECD) has developed the so called "nexus approach", which requires a link between the income deriving from IP and the expenditure incurred to develop this asset, in order for the income to qualify for the patent box preferential regime. EU Member States have committed to make their patent boxes compliant with the nexus approach.
[24] Alstadsæter et al, 2018
[25] D'Andria et al., 2017

workforce or other system-level inputs to R&D such as high quality public research organisations and related public research infrastructure.

Member States are increasingly relying on tax incentives to stimulate R&D investment. Public support for R&D as a percentage of GDP increased by over 46% from 2006 (0.13% of GDP) to 2015 (0.19%). Much of this support stemmed from R&D tax incentives, which in 2015 accounted for 53% of public support for business R&D. Graph 2.5 depicts public support for R&D as share of GDP, both direct, e.g. through grants and loans, and indirect through tax incentives for business R&D. From 2006 to 2015, 21 Member States have increased their public support for business R&D. Six Member States more than doubled their public support for R&D. The Netherlands relies the most (87%) on tax incentives as a share of total public support for R&D.

It is important to note that there is a time lag between the introduction of a R&D tax incentive and an increase in business R&D investment. Existing evidence[26] shows that R&D tax incentives can directly increase private R&D expenditure, however variations exist across countries and firms. The effectiveness of R&D tax incentives depends on the design features, implementation and administration of the incentives as well as on the structural characteristics of a Member State's economy.[27] Further, the opportunity cost of business R&D investments will also be affected by the design of other tax provisions. For example, full loss offset, capital gains taxation, and personal taxation impact on risk-taking, venture capital, innovation-related investment and human capital formation.

Graph 2.5: Direct government funding of business R&D and tax incentives for R&D, 2006 and 2015 (or latest available year)



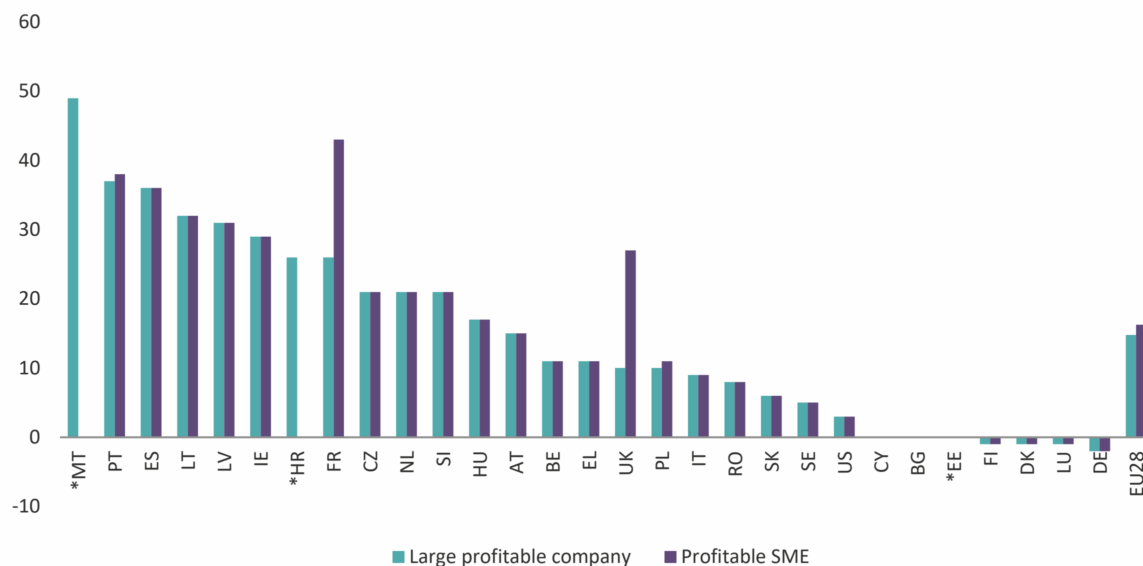
Source: DG Research and Innovation - Unit for the Analysis and Monitoring of National Research and Innovation Policies. Data: OECD, Eurostat. Notes: (1) Estimated direct public support for business R&D includes direct government funding, funding by higher education and public sector funding from abroad. Public sector funding from abroad is not included for DE, and NL (2) BE, BG, FR, IE, EL, UK: 2014. Indirect government support through tax incentives only includes expenditure-based R&D tax incentives (3) BE, DK, LU, SI: 2007; RO 2009; SK: 2010; (4) EU average was estimated by DG Research and Innovation and does not include MT, PL, SE. Data on tax incentives are not available for these three countries. The following countries have no tax incentives for R&D: BG, DE, EE. The following four countries had no expenditure-based R&D tax incentives in 2015: CY, HR, FI, and LU.

[26] For a literature review, see Ognyanova, D. (2017)
[27] In countries with a low share of medium and high-tech sectors or where the services sector is predominant, the impact of tax incentives is likely to remain limited, since very few firms are R&D intensive. See: European Commission (2018d)

Graph 2.6 below presents implicit tax support across EU countries in 2017. The implicit R&D tax subsidy (so-called one minus B-index) shows the influence of R&D tax incentives on the price of conducting business R&D (user cost). For example, a value of 10 % suggests that the price for a business to invest in R&D is 10 % lower than it would have been in the absence of any R&D taxation measures, whereas a value of -5 % suggests that the user cost is 5 % higher than it would have been in the absence of these measures. A value of 0 corresponds to the case of no taxation where all R&D expenses are immediately tax deductible.[28] The indicator combines the design features of tax incentives and characteristics of national tax systems.

Existing evidence points to a number of good practices for R&D tax incentives.[29] The effectiveness of tax incentives could be improved in particular by ensuring that young and small companies are able to benefit from these incentives, by simplifying and regularly evaluating their impact. Also, good practices in the design of R&D tax incentives include carry-forward provisions, cash refunds or relief from labour taxes. The Commission's proposals for a CCCTB (see chapter 3.2.1.1.) include an R&D incentive aimed at stimulating R&D investments in the EU. As can be seen in graph 2.6 below, France[30] and the United Kingdom[31] in particular offer much more generous implicit tax subsidy rates to small and medium-sized enterprises (SMEs) than to large companies.

Graph 2.6: Implicit tax subsidy rates to R&D in the EU, 2017 or latest year



Source: OECD, Data for 2017 from R&D Tax Incentive Indicators, http://oe.cd/rdtax, March 2018. Data from European Commission (2016a) for countries labelled with an (*), Subsidy rates are in percentages. *Note:* The bar for the EU-28 depicts the simple average for EU Member States.

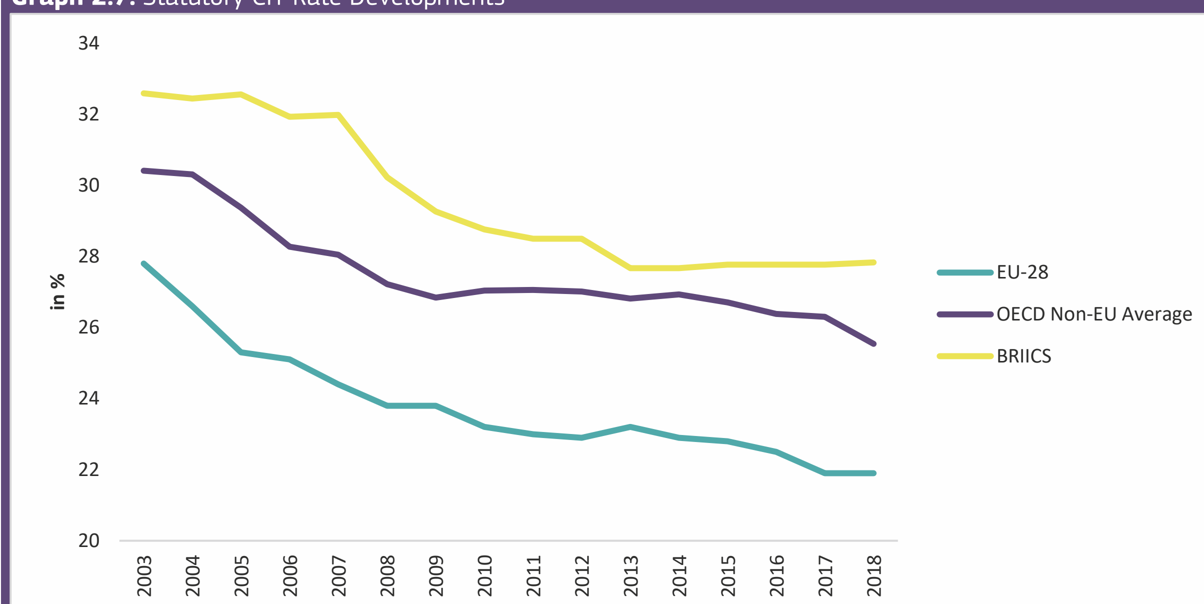
[28] Warda, 2001
[29] CPB, 2014 and Ognyanova, D. (2017).
[30] France offers a more generous tax credit for R&D costs up to EUR 100 million. Additionally, SMEs can immediately refund tax credits.
[31] The UK offers an extra deduction of 130% to profitable SMEs, and a special tax credit to loss making SMEs.

Box 2.1: International Business Taxation Developments

In 2018, the average top rate of corporate income tax in the EU is 21.9% (2017: 21.9%). The trend of falling statutory corporation tax rates in the EU looks set to continue as France, Greece, the Netherlands and Sweden have all announced future reductions to the corporate income tax rate.

This trend is not just limited to the EU. The graph below shows the average top rate of corporation tax in OECD countries, the BRIICS[32] and the EU member states since 2008. There are some methodological differences in the data sets (e.g. how to calculate local tax rates) so caution should be applied when making international comparisons. Nonetheless, there is a clear downward trend over the last 15 years.

Graph 2.7: Statutory CIT Rate Developments



Source: European Commission (2018a), OECD Tax Database, KPMG.

As some countries apply a small profits rate or a lower rate for specific sectors or categories of income, this does not show the whole picture. For instance, Australia has introduced a lower tax rate for companies with annual turnover below 50 million Australian dollars as part of a long-term package of reforms that will eventually see the main corporation tax rate reduce from 30% to 25% by 2026-27.

Japan and the United States made major corporate income tax reforms in 2016 and 2017. These countries have reduced the corporate income tax rates from 39.54% (2012) to 29.74% and 38.91% (2017) to 25.84% respectively.[33] These are both still above the average CIT rates in the EU and the OECD, but may contribute to additional reductions as was the case after the United States last made significant CIT changes back in 1986.

Over the last twenty years, corporation tax revenues have broadly been maintained despite lower corporate income tax rates. There are a number of possible explanations for this, including the growth in the corporate sector in the overall economy or an expansion in the tax base.[34] It is not clear whether this trend will continue if declining rates persists, particularly as the scope to broaden the tax base could become more limited.

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[32] The BRIICS: Brazil, Russia, India, Indonesia, China, South Africa

[33] Concerns the combined corporate income tax rate, which adds the central and sub-central government corporate income tax rates together. Data obtained from the OECD Tax Database.

[34] Nicodème, G., A. Caiumi., I. Majewski, 2018

Two common themes among international tax developments are changes to the rules to limit the relief of tax losses against taxable profits and to R&D tax incentives. The table below shows some of the non-EU countries, which have introduced restrictions on loss relief in recent years. Several countries are also introducing anti-avoidance measures resulting from the OECD Base Erosion and Profits Shifting (BEPS) project. These are not summarised here.

Table 2.2: Recent Restrictions on Loss Relief

Country	From	Restriction	Exclusions
Japan	April 2018	50% of taxable profit	SMEs
Republic of Korea	January 2019	60% of taxable profit	SMEs
United States	January 2018	80% of taxable profit	n/a

Source: desk research by Commission services

Some studies show that comprehensive loss offsets encourage risk-taking and promote investments and entrepreneurship (see for a literature review[35] issued by DG TAXUD on taxation, entrepreneurship and collaborative economy). Several regimes address this concern by including specific exemptions to loss restrictions for SMEs or allowing losses to be fully relieved up to a set threshold.

Many countries continue to use tax incentives to promote investment. In particular, there have been a number of changes to R&D tax incentives and preferential regimes for technology businesses. For example, Israel has introduced “Preferred Technology Enterprise” and “Special Preferred Technology Enterprise” regimes alongside its innovation box. These regimes provide reduced CIT, withholding tax and capital gains tax rates for businesses that meet criteria linked to the enterprise’s R&D expenditure, size, growth, and funding profile.

More widely, several countries have increased the generosity of their R&D tax incentives. For example, Singapore and Hong Kong have recently increased the size of their R&D ‘super deductions’, China has expanded the range of expenses which qualify for its super deduction incentive and New Zealand has increased its tax credit. Other countries, including Japan and Australia, have targeted their R&D tax incentives by requiring companies to meet specified levels of capital or R&D expenditure in order to qualify.

[35] Dondena & IHS, 2017

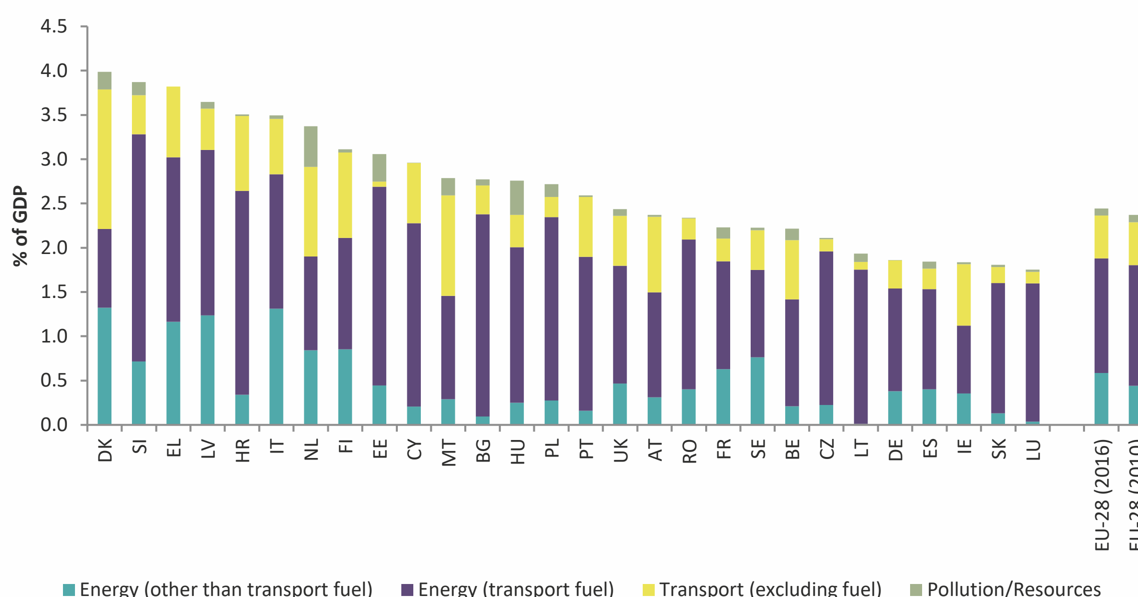
2.1.4 Environmental investment

Environmental taxation comprises taxes on energy, transport, pollution and resources. In addition to raising revenue, environmental taxation can contribute to the achievement of environmental policy goals and help to incentivise behavioural change by applying the 'polluter-pays principle' thus pricing in the negative externalities of polluting or other damaging activities (see also section 2.2.4).

The design of the tax system influences investors' decisions and can create incentives (or disincentives) for investment and consumption that provide wider benefits, or reduce negative externalities for society. Provisions in the tax system that favour relatively more polluting forms of technology or consumption can lead to negative environmental impacts and future foregone revenue. At the same time, environmental tax (dis)incentives shift consumption and investment away from activities that generate negative impacts on the rest of the economy, towards higher consumption, investment and employment in activities that generate less negative or positive impacts on the rest of the economy, to the benefit of society as a whole.

The structure of environmental tax revenue in EU Member States is shown below. Energy taxation (including on transport fuel) accounts for a large majority of the revenue from environmental taxes in almost all Member States, and 77% in the EU-28.[36]

Graph 2.8: Structure of environmental taxes, 2016



Source: European Commission (2018a), based on Eurostat data

Note: Energy taxes include taxes on energy products used for both transport and stationary purposes, including taxes on related carbon dioxide emissions and Member States' revenues from the EU Emission Trading System. Transport taxes include taxes related to the ownership and use of motor vehicles. They also include taxes on other transport equipment such as planes and on related transport services. Pollution taxes include taxes on measured or estimated emissions to air (except revenue related to carbon dioxide emissions, which is included in energy taxes) and water, on the management of waste and on noise. Resource taxes include any taxes linked to the extraction of use of a natural resource.

The graph below shows the marginal tax rates on (standard) petrol and diesel, both per volume consumed and per CO_2 emissions, which account for the majority of the passenger car fleet in the EU, when used in private transport.[37] To better align the taxes applied to different fuels to the level

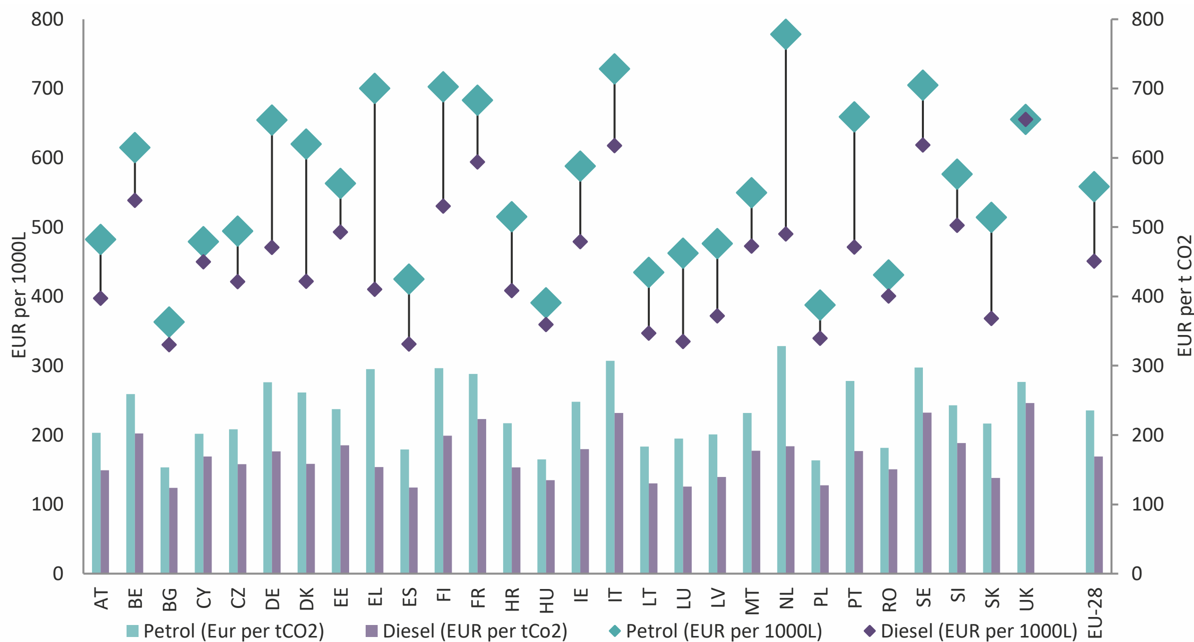
[36] Further information on the composition and dynamics of environmental taxation in EU Member States can be found in the report *Taxation Trends in the European Union* (European Commission, 2018a)

[37] In some Member States biofuels of fuels with a given biofuel content are taxed at lower rates.

of environmental damage they cause, a number of Member States also define part of their energy tax rates based on carbon emissions of each product and/or levy a carbon tax on energy products. This is included in the marginal tax rates shown in the graph. However it should be noted that fuel consumption of petrol and diesel for private road usage represent different shares of total fuel consumption in different Member States.

In all Member States with the exception of the UK (where rates are equal when considered per volume of fuel consumed) the marginal tax rates on diesel when used as a propellant for private road usage are lower than those on unleaded petrol, despite diesel having a higher carbon content and higher negative impact on ambient air quality than unleaded petrol.[38] This often preferential treatment of diesel is present not only when considering the tax per volume of fuel consumed, but also when considering the tax per tonne of CO_2 emissions. Some Member States offset this advantage via registration and/or circulation taxation. However, while a registration tax affects a buyer's decision when purchasing a car, and an annual tax adds to the overall cost of ownership, neither affects the decision of how much to drive, given that a car is owned and ready to be used (marginal cost of driving a car). It is also worth noting that the average price for an EU Emission Allowance required for compliance by the Industrial, Power and Aviation sectors under the EU Emission Trading Scheme[39] was around €19 per tCO2 in in August 2018[40], much below the implicit values per tonne of CO_2 emissions of Diesel and Petrol used in private road transportation in any of the MS.

Graph 2.9: Tax rates on petrol and diesel when used as propellants, 2018



Source: Commission services

Notes: (1) Marginal tax rates show the excise duty rates applicable in Member States in January 2018. They exclude VAT but include any applicable carbon taxes. (2) EUR per tCO2 emitted computed considering emissions per 1000L of fuel burnt (2,371 and 2,664 tCO2 per 1000 litre of petrol and diesel, respectively), and are therefore not well-to-wheel emissions (which consider also the emissions related to extracting and processing the fuel).

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[38] Although it should be noted that diesel engines are on average more efficient than petrol engines.

[39] An EU Emission Allowance is valid for compliance of 1 tonne of CO2 equivalent emissions by the sectors covered by the EU Emission Allowance Scheme. For more information, see https://ec.europa.eu/clima/policies/ets_en.

[40] It should be noted that whereas the EU Emission Allowances (EUAs) deal exclusively with the CO2 emission externality, taxes on fuel for road transportation may be trying to price-in other externalities (such as managing infrastructure congestion or dealing with other pollutants). As such the price of EUAs are not directly comparable.

Box 2.2 Taxation as an environmental policy instrument: Focus on Waste and Resources

Waste and Resource Management is one of the policy areas in which EU Member States commonly use pricing instruments, including taxes, as a policy tool to achieve environmental objectives.

EU action in this area has traditionally focused on legislative actions, including the setting of targets, for example for the recycling of waste. In addition, as part of the proposals for the next Multiannual Financial Framework, the Commission has proposed a national contribution calculated on the amount of non-recycled plastic packaging waste as part of the basket of new Own Resources.

The Commission has also recognised the role that taxation can play as a policy tool for Member States to achieve the objectives set at EU level. The European Commission's Circular Economy Strategy encourages Member States to "use economic instruments, as taxation, to ensure that product prices better reflect environmental costs", and the European Strategy for Plastics in a Circular Economy highlights the potential of taxes and fees as a policy tool to internalise the environment costs of landfilling and incineration, so as to provide incentives to move away from those waste management practices.

Tax policies implemented by Member States include taxes on more environmentally costly forms of waste disposal, such as landfill or incineration, and specific product-related taxes, often to discourage the use of single-use items, such as plastic bags.

Landfill and incineration taxes in EU Member States: A 2016 report by the European Environment Agency found that the majority of EU Member States had in place landfill taxes, although their coverage and rates varied. A smaller number of Member States had implemented taxes on the incineration of waste.

Table 2.3: Overview of landfill and incineration taxes in EU Member States

	BE	BG	CZ	DK	DE	EE	IE	EL	ES	FR		HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE	UK
Landfill tax	X	X	X	X		X	X	X	X	X			X		X	X	X	X		X	X	X	X	X	X	X	X	X	X
Incineration	X			X					X	X										X	X		X						

Source: EEA (2016), Environmental taxation and EU environmental policies, EEA report No. 17/2016; Landfill-taxes-and-bans-overview 2017 - CEWEP (Confederation of European Waste-to-Energy Plants)

In recent years, an increasing number of Member States have implemented taxes or charges on plastic bags, generally targeting single-use plastic bags. In addition, several Member States have implemented taxes on other forms of single-use packaging, for example beverage packets.

Ireland was one of the first EU countries to introduce a specific levy on plastic bags, with the stated aim of litter reduction. The Irish levy was introduced in 2002. It was originally set at a rate of 0.15 EUR per plastic bag, which was increased in 2007 to 0.22 EUR per bag. Exemptions are available for specific uses, such as the separation of food for hygiene or food safety purposes. Revenue from the tax is low in the context of overall taxation and declining as a result of the desired behavioural change since 2008 when it peaked to EUR 26m.[41] Since its introduction, plastic bag use has fallen sharply, and the share of plastic bags as a proportion of litter has reduced from an estimated 5% in 2002 to 0.27% in 2017 (although this marks an increase from 0.13% in 2014).[42]

[41] https://www.revenue.ie/en/corporate/documents/statistics/receipts/net-receipts.pdf
[42] The Litter Monitoring Body (2018), National Littering Pollution Monitoring System: System Results 2017, prepared for Department of Communications, Climate Action and Environment, Dublin, April 2018.

2.1.5 Increasing tax certainty

Increasing tax certainty, as a contributor to growth and trade, has become an important priority for governments and taxpayers in G20 and OECD countries given the deepened globalization and the need to update international tax rules in an ever changing environment.[43] Tax uncertainty is very likely to have negative effects on investment and trade. Hence, there is a concern that taxation could still be a relevant barrier to economic growth.

From a business perspective, tax certainty can be defined as an environment where the risk associated with uncertainties in tax matters is manageable and the effective tax burden on economic activities is somewhat predictable.[44] Tax certainty is also a concern for governments seeking for predictable and stable government revenues and, at the same time, aiming at creating an attractive business environment.

The concept of tax (un)certainty is multi-dimensional. A variety of tax parameters can be subject to uncertainty, e.g. the statutory tax rate, the tax base, the timing of a tax change, the expiration date of temporary tax measures. The correct interpretation of tax legislations to the real context adds another layer, in particular for evolving business models (e.g. digital companies and collaborative economy platforms). Tax audit uncertainty, i.e. the risk of being considered non-compliant when audited, also matters.

Tax uncertainty can come from many sources. At the domestic level, typical sources of uncertainty are complexity in the tax legislation, unexpected and frequent tax changes, and inconsistency in the implementation of tax reforms. At the international level, the co-existence of different tax systems unavoidably generates uncertainty for cross-border investments. Important tax obstacles to across border business activities include the possibility of unrelieved double taxation on cross-border income and capital, differences in the application of transfer pricing regulations across authorities, lack of enforceability in dispute resolution mechanisms, and inconsistencies or conflicts between tax authorities on their interpretation of tax standards. Issues of uncertainty can also arise because of the interaction of various taxes, such as VAT and direct tax, in international transactions.

Two surveys on tax uncertainty, conducted among business and tax administrations, allow identifying which sources of tax uncertainty are relatively more important for economic choices (IMF-OECD, 2017). According to businesses, issues related to tax administration rank among the major drivers of uncertainty; in particular, considerable bureaucracy in complying with tax legislation[45] and an inconsistent treatment by the tax authority are considered as the two most important sources of tax uncertainty. According to tax administrations, the most important sources of tax uncertainty are related to the complexity in tax legislation, lengthy court procedures and dispute resolution.[46] In order to enhance tax certainty the most effective tools identified by businesses are reducing the frequency of tax changes, reducing bureaucracy, providing detailed guidance in tax regulations and announcing important changes in advance. On this matter, the views by tax administrations closely match those indicated by businesses.

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[43] Uncertainty on corporate taxation has become a topic of discussion at the G20 and OECD level starting from the Chinese Presidency in 2016. Concerns regarding tax uncertainty have intensified at the international level with the ongoing efforts to reduce tax avoidance, notably through the implementation of G20-OECD BEPS measures.

[44] Tax certainty may also be beneficial to individuals' welfare, as individuals tend to be risk averse (for a literature review see Zangari, Caiumi and Hemmelgarn (2017).

[45] It is not clear whether respondents identified bureaucracy in complying with tax legislation as a product of complexity in tax legislation, or in contrast a factor within the control of tax administration, therefore reflecting concerns over compliance costs rather than uncertainty.

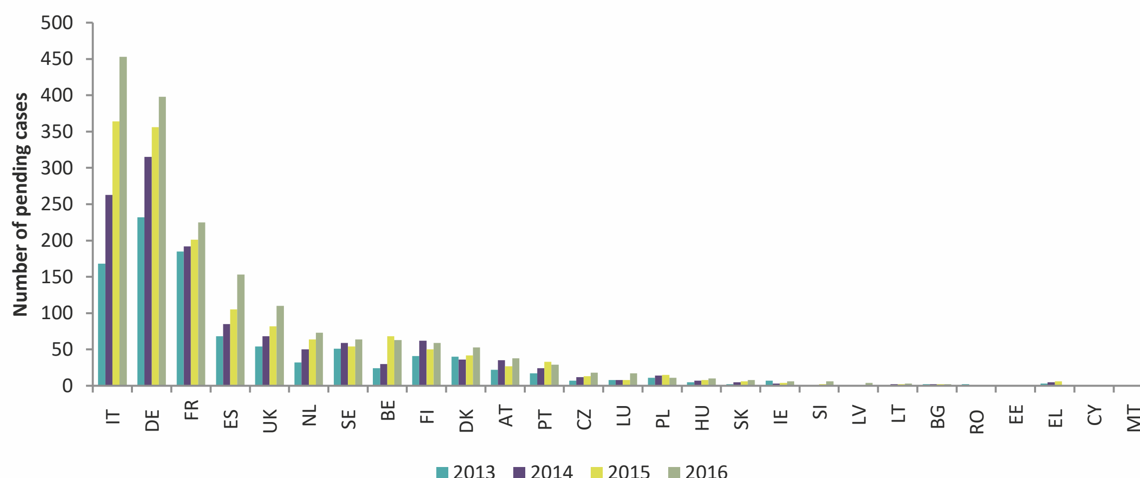
[46] See also European Commission, 2017d.

High legal tax uncertainty is also reflected in Member States' inventory of pending double taxation disputes under the EU Arbitration Convention.[47] As shown in Graph 2.10 the number of pending Mutual Agreement Procedures (MAPs) under the Arbitration Convention[48] have been systematically growing in the past years, almost doubling from 2013 to 2016. There were around 1800 pending cases in 2016, with many cases lasting often two years after initiation but also much longer. The current legal framework does not provide taxpayers with sufficient guarantees that their (double taxation) disputes would be resolved within a specified length of time. This fed uncertainty in the international tax system and consequently led to distorted economic decisions.

Policy initiatives can improve tax certainty at both the domestic and international level. Domestically, designing a simpler tax system, in terms of tax rules and tax compliance, may enhance substantially tax certainty. With respect to the kind of tax uncertainty at the international level, the best policy answer is boosting the cooperation on tax matters, which means - not only exchange of information - but also common approaches in fighting aggressive tax planning, as well as agreeing on a fair distribution of the tax revenues for cross-border investment and more generally on a transparent and fair tax competition game.

All recent Commission initiatives (e.g. the Anti-Tax Avoidance Directive, the Common Consolidated Corporate Tax Base proposal, the Dispute Resolution Mechanisms Directive, and VAT actions) contribute to increasing tax certainty. Among the latest developments, Member States agreed to enhance the system for the resolution of disputes, including double taxation disputes, arising from tax treaties and conventions between EU Member States. The Directive on dispute resolution mechanisms (DRM)[49] is expected to ensure that tax treaty related disputes will be resolved more swiftly and effectively, thereby facilitate taxpayers' cross-border activities. See section 3.2 for a detailed description of these and other recent EU initiatives.

Graph 2.10: Statistics on the function of the Arbitration Convention – MAPs, number of pending cases at end of year



Source: Member States' statistics on pending MAPs under the Arbitration Convention at end of year reported to Joint Transfer Pricing Forum (JTPF) Meetings of 24/10/2014, 22/10/2015, 20/10/2016 and 9/3/2017. See section "3. Member States' Statistics" of https://ec.europa.eu/taxation_customs/business/company-tax/transfer-pricing-eu-context/joint-transfer-pricing-forum_en

[47] Convention 90/436/EEC

[48] A Mutual Agreement Procedure (MAP) is a mechanism that consists in bringing together tax authorities of more than one State in order to resolve tax-related disputes between these States. These disputes mostly involve double taxation.

[49] Directive 2017/1852/EU

2.1.6 Improving the tax administration

Tax systems impose tax compliance costs on taxpayers. Tax compliance costs, which include all the costs a company incurs when complying with tax rules and obligations, are influenced not only by tax rules but also by how simple it is to deal with tax authorities. A simpler and more transparent tax system can reduce tax compliance costs. Member States can also reduce these compliance costs by improving the efficiency and effectiveness of their tax administrations, which enforce tax policy. The total enterprise compliance costs can serve as a good proxy for how high tax compliance costs are in a country. A recent study used a large-scale survey approach to rank the relative tax compliance burden across 19 Member States. Graph 2.11 below depicts the total enterprise compliance costs with direct and indirect tax obligations for the Member States that were in scope of the study. Both the burden for direct and indirect obligations vary significantly across Member States. The lowest average relative burden of tax compliance costs can be found in Luxembourg (0.7%), the highest in Poland (3.8%). The Commission's CCCTB proposal (see chapter 3.2.1.1.) would lower tax compliance costs by providing for a single set of tax rules for calculating the tax base.

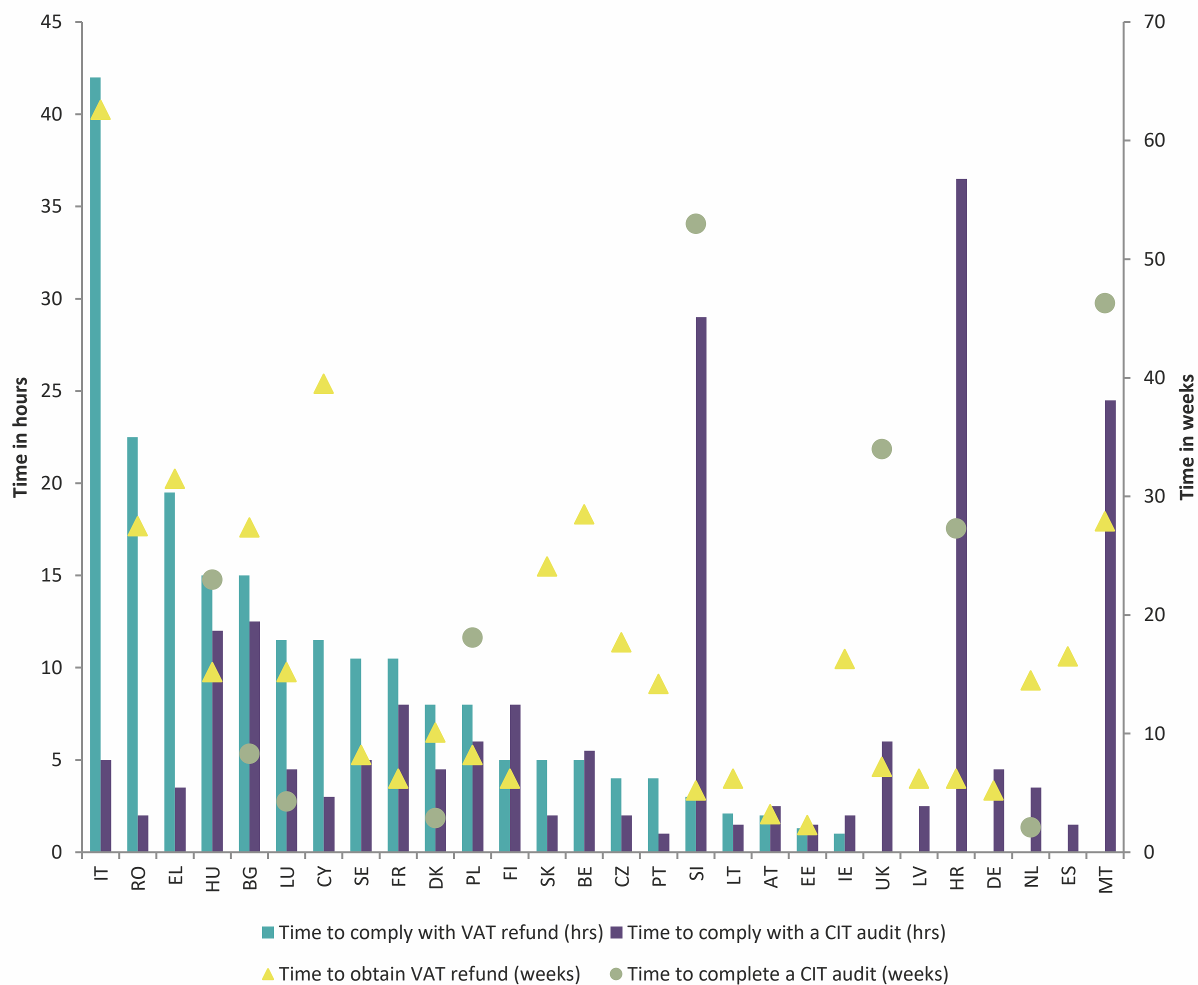
Graph 2.11: Total enterprise compliance costs to turnover ratio for direct and indirect tax obligations in 2014

Source: KPMG-GFK (forthcoming 2018)

The indicator below is one of the four sub-indicators that form the overall economic indicator "ease of paying taxes" which is part of the World Bank's indicator series "ease of doing business". So far the indicator had only captured the cost of complying with tax obligations up until the filing of a tax return and the payment of taxes due. However, since companies might also face difficulties afterwards for instance in obtaining tax refunds or when being audited, the indicator was complemented by a fourth sub-indicator in 2017.

The so called "post-filing index" captures the amount of time spent to comply with tax refunds and audits as well as the time to obtain a refund or complete a CIT audit for a model company. Graph 2.12 below depicts the indicator for the EU 28.

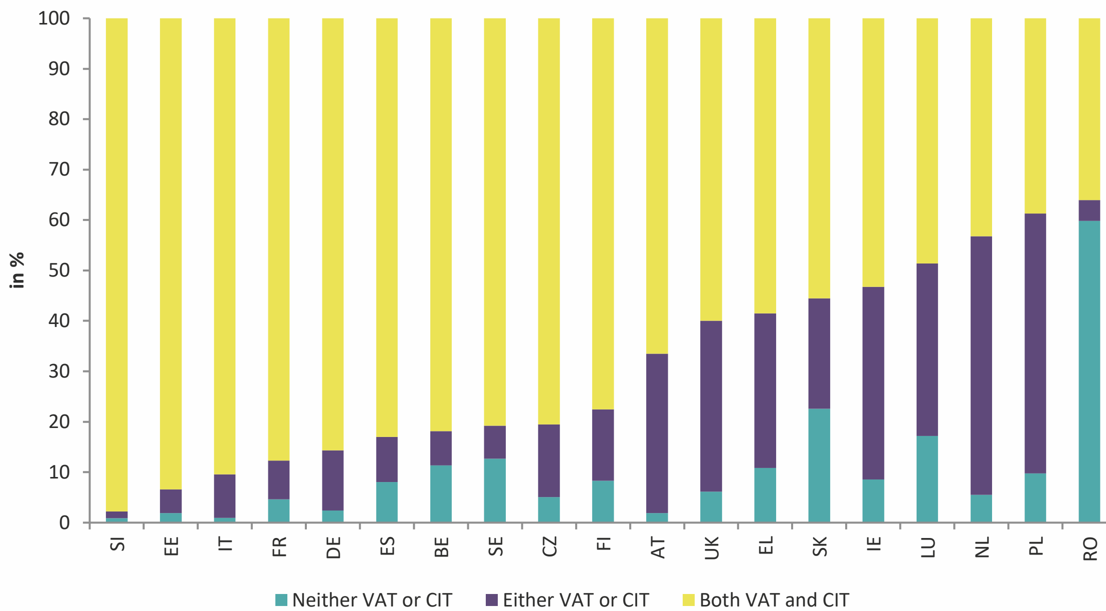
Graph 2.12: Number of hours/ weeks needed to comply with taxes after their filing, 2016



Source: PwC (2017)

A wide offer of digital services for taxpayers, especially e-filing opportunities of tax returns, can reduce compliance costs, while making tax administration more efficient and increasing compliance. Graph 2.13 below indicates the share of companies in 19 Member States that e-file their tax returns. Overall, less than 10% of companies' e-file neither their VAT nor their CIT returns. The largest percentage of companies' e-filing both their CIT and VAT tax returns electronically can be found in Slovenia (98%), the lowest in Romania (36%). Romania is the only Member State in which the majority of companies do not e-file their tax returns.

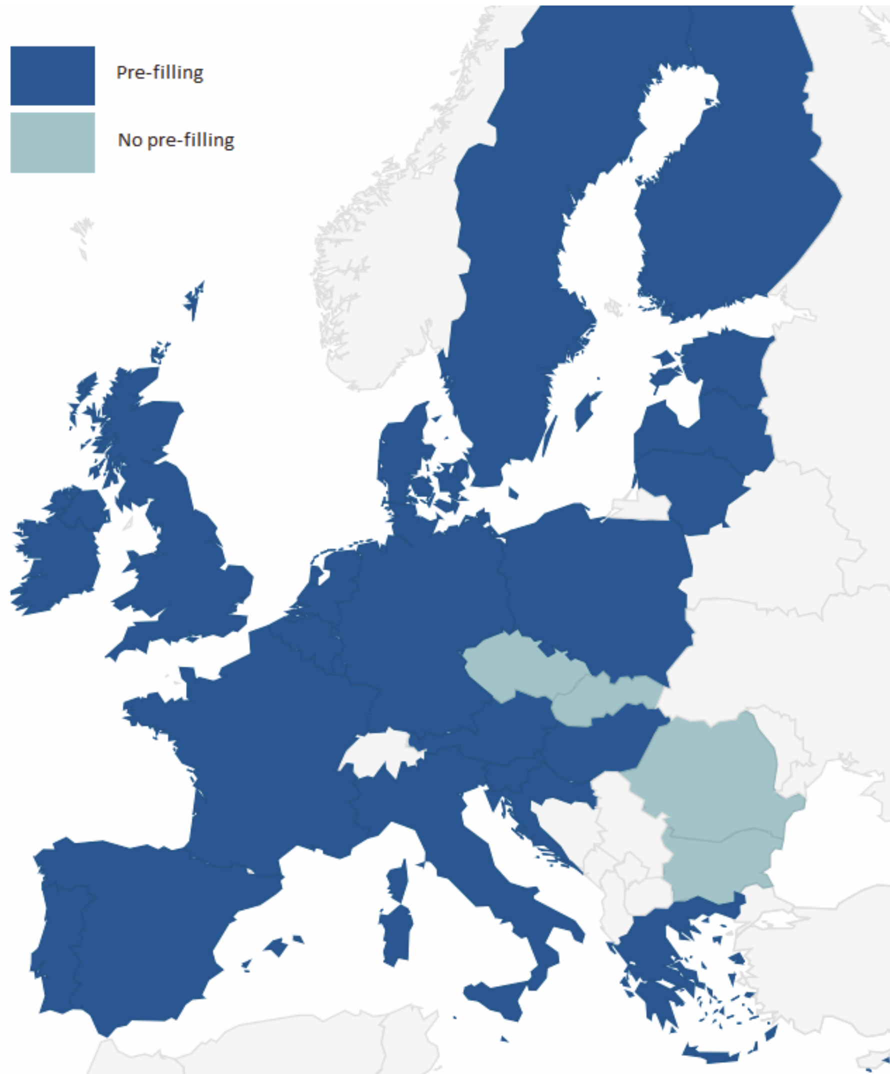
Graph 2.13: Estimated proportion of companies' e-filing their tax returns (data for CIT and VAT) in 2014



Source: KPMG-GFK (forthcoming 2018)

The electronic pre-filling of personal income tax returns is one way to simplify the process for taxpayers, although other approaches, such as taxing salary, dividends or interest payments directly at source can also make a difference. Twenty-four Member States prefill personal income tax returns to assist tax compliance. Prefilling is usually done based on taxpayer information that tax authorities already have at their disposal. This information usually comes from banks, employers and other third parties. The map below shows which member states pre-fill personal income tax returns. No Member State introduced pre-filling of personal income tax returns in 2017.

Figure 2.1: Pre-filling of personal income tax returns using third party information, 2017



Source: OECD (2015a) and desk research by Commission service

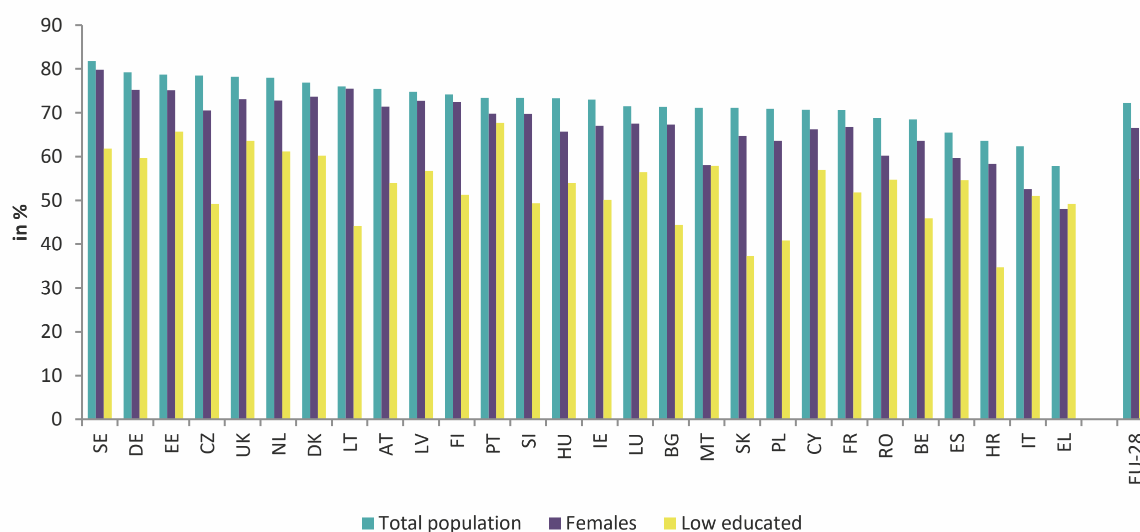
2.2 Supporting job creation and employment

As explained in section 1.2, the design of the tax system can have an influence on both demand for and supply of labour, in particular in the short run. Reducing the tax burden on labour can help to support job creation and employment. Since only a few Member States have fiscal space to consider uncompensated labour tax cuts, the financing of such tax cuts also needs to be considered, for example by shifting the tax burden to other bases where these are relatively low. Alternatively, labour tax cuts could be financed by reducing the use of non-cost efficient tax expenditures (e.g. housing-related tax expenditures) or through a better reallocation of public expenditure. Where scope for a tax shift is limited, targeted tax cuts aimed at low income earners or more responsive groups, such as second earners, can be a way to improve both efficiency and fairness.

Graph 2.14 depicts the employment rate of the total population, of women and of low educated people, for the age group 20-64. This provides an indication of Member States facing a challenge in boosting employment, overall or for specific groups. However, it does not account for part-time work. Other indicators, such as the full-time employment rate, can also be used to provide a fuller picture of labour market conditions. The gender employment gap, in particular, is larger when measured in full-time equivalent, as the rate of part-time work is higher among women than among men.

While the overall employment rate has risen as part of the recovery and is now at a record high, approaching its goal of reaching a 75% employment rate by 2020, the situation varies in the Member States. Likewise, the gap between the female employment rate and the employment rate for low educated people compared to total employment differs. In Lithuania, the employment rate of females is only 0.5 percentage points lower than the total employment rate, while in Malta the gap amounts to 13.4 percentage points. The largest difference in employment rates of low educated people compared to the total population can be found in Slovakia (33.8 percentage points) and the lowest in Portugal (5.7 percentage points).

Graph 2.14: Employment rates of total population; female and low-skilled, 2017



Source: Eurostat, lfsi_emp_a (updated 12.07.2018) and lfsa_ergaed (updated 20.06.2018)

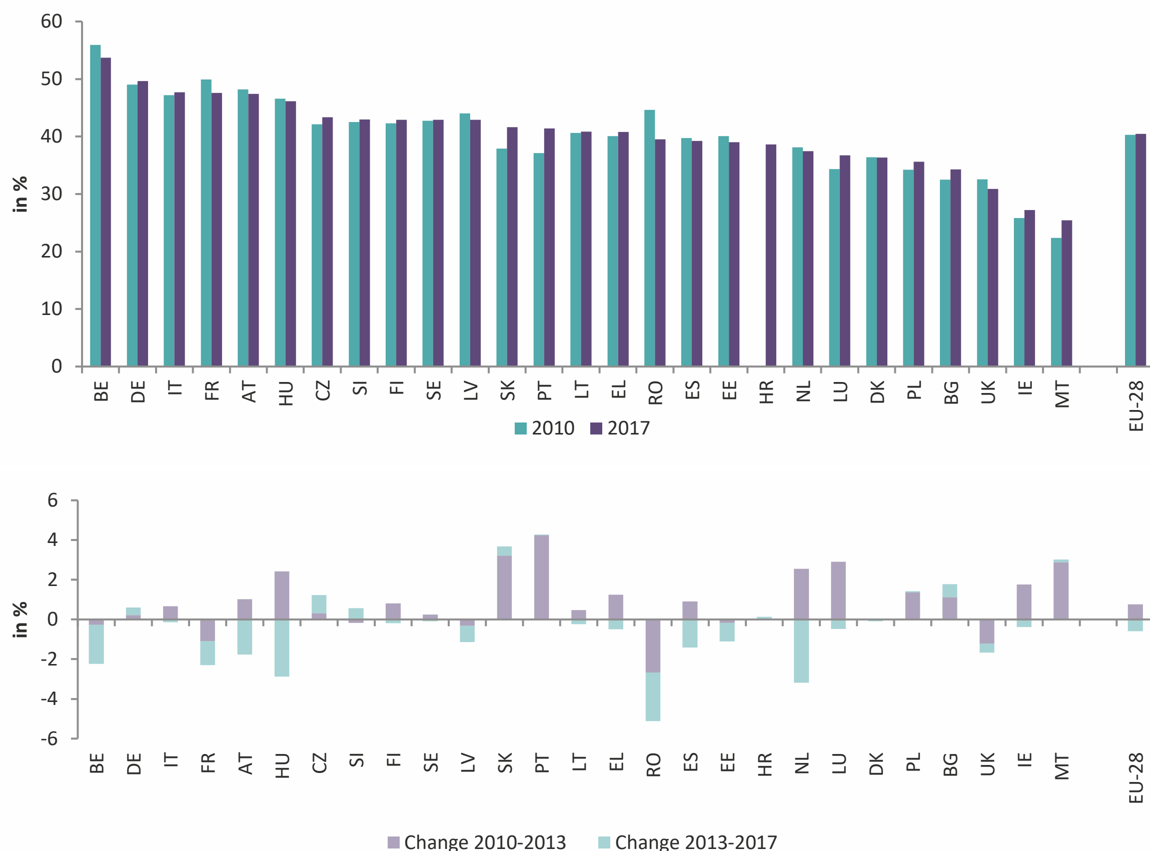
Notes: (1) The age group considered for the employment rates is 20-64 years. (2) 'Low-educated' refers to levels 0-2 ISCED. (3) The employment rate for women is used as proxy for second earners. It is recognised that these are not necessarily the same. (4) The employment rate is not measured in full-time equivalents.

2.2.1 Overall tax burden on labour

The graph below shows the tax wedge for a single worker earning the average wage in various EU countries. The tax wedge measures the proportional difference between the costs of a worker to their employer and the employee's net earnings. It therefore measures both incentives to work (labour supply side) and to hire employees (labour demand side).

The tax wedge is defined as the sum of personal income taxes and employee and employer social security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social security contributions paid by the employer). The tax wedge for a single person earning the average wage is one of the indicators used by the Eurogroup in benchmarking the tax burden on labour (alongside the tax wedge for a single person at 50 % of the average wage - see below),[50] in line with its commitment to effectively reduce the tax burden on labour.[51] Between 2010 and 2017, the average tax wedge slightly increased in the EU, with 15 Member States increasing the tax wedge on the average wage, whilst 11 reduced it. However, this is based on diverging trends in several Member States, where the tax wedge had increased from 2010 to 2013 and decreased in the following years.

Graph 2.15: Level of tax wedge in EU Member States for a single person earning the average wage, 2010-2017



Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

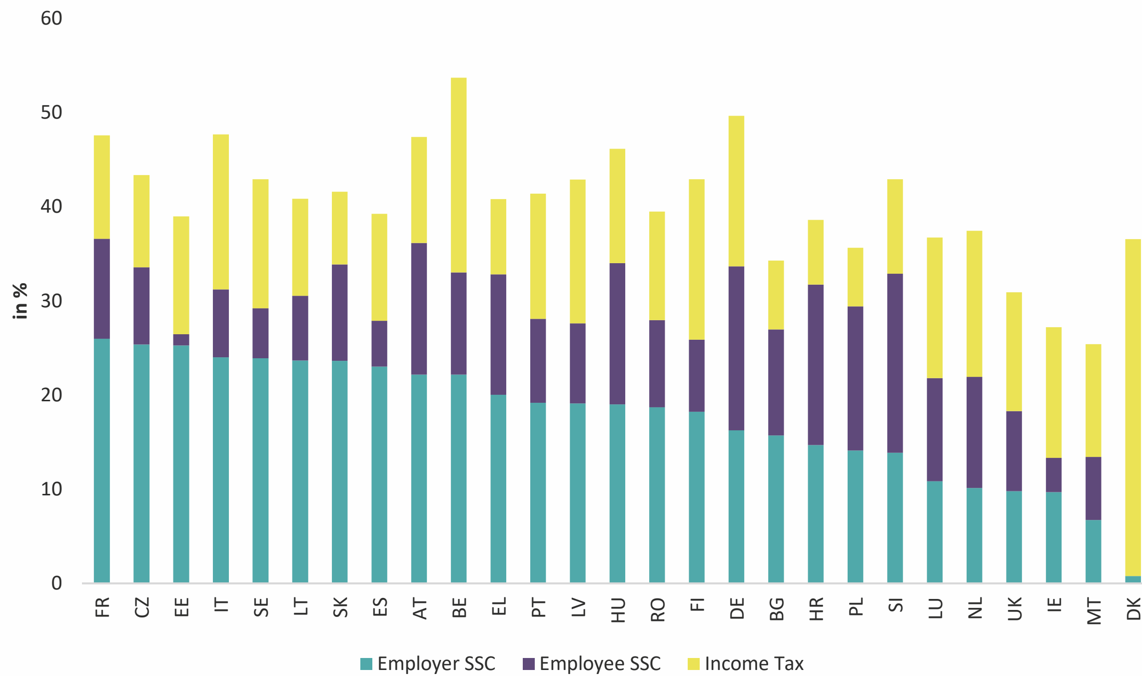
Notes: (1) Tax wedge: The tax wedge data is for single earner with no spouse or children, average wage. (2) Recent data for Cyprus is not available. 2010 data is not available for HR.

[50] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/144872.pdf

[51] http://www.consilium.europa.eu/en/press/press-releases/2015/09/12-eurogroup-statement-structural-reform/

The composition of the tax wedge is important in the short run as the different elements can have an impact either on labour demand or supply. The graph below divides the tax wedge for a single worker earning the average wage into its separate components: personal income tax, employer social security contributions (SSCs) and employee SSCs.[52]

Graph 2.16: Composition of tax wedge in EU Member States, 2017



Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

Notes: (1) Recent data for Cyprus is not available. (2) As the data is for single earner with no spouse or children, family allowances do not influence the level of the tax wedge. (3) MS are ranked in descending order by the magnitude of the Employer SSC.

[52] It should be noted that in the majority of Member States, social security contributions also represent an input to the pension system and can thus be seen as a form of deferred income for workers. The strength of the link between contributions and pensions differs between Member States.

2.2.2 Tax burden on low income earners

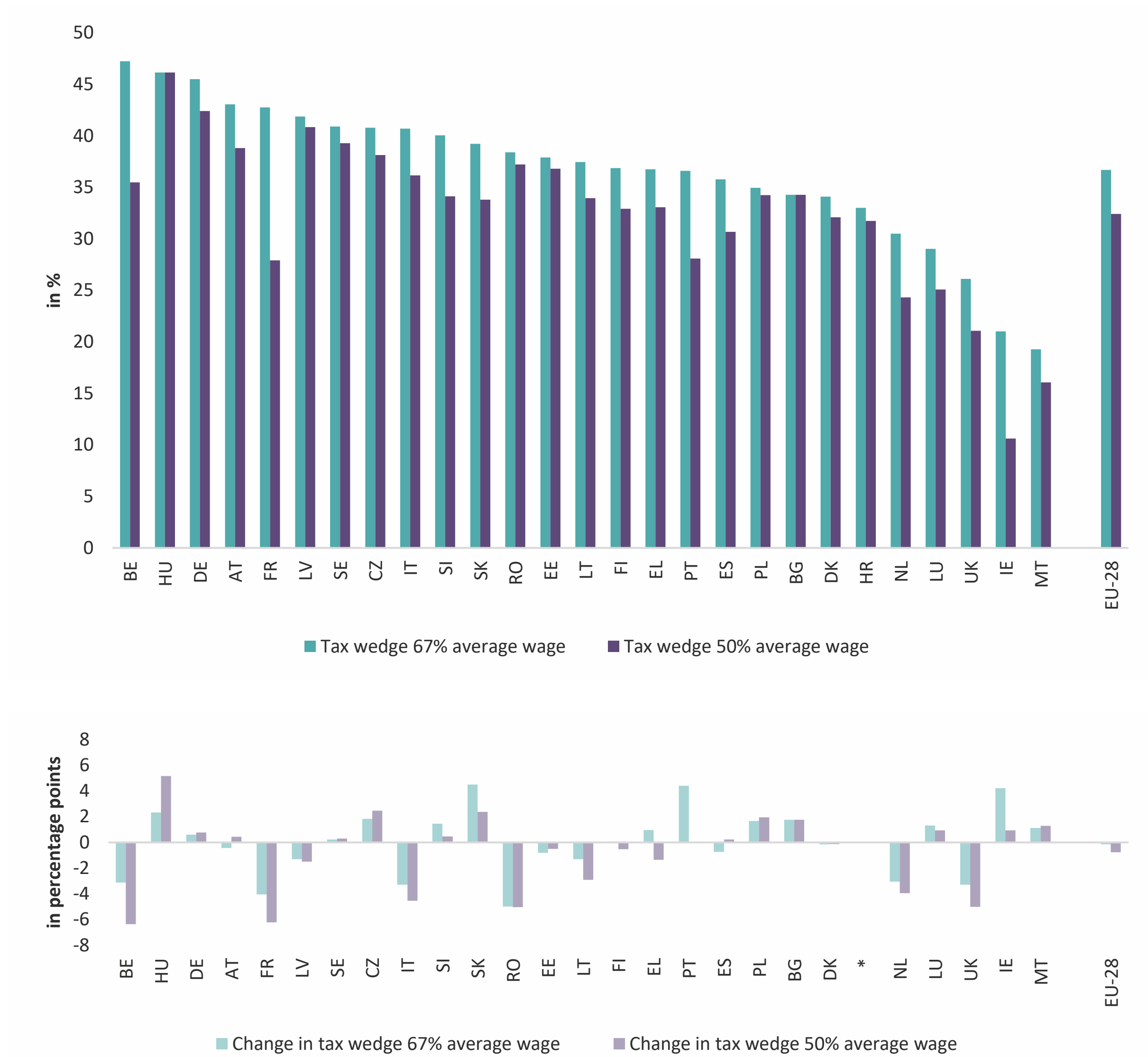
Certain specific groups, such as low income earners, can be more sensitive to changes in the tax burden on labour. Focusing labour tax reductions on low income earners can also support other policy aims, such as reducing income inequality or poverty.[53] Depending on the structure of the tax system, options such as tax credits, tax free allowances, or changes to tax rates can affect the tax wedge for low income earners. However, where measures such as differentiated allowances or tax credits are targeted towards low income earners and withdrawn as earnings rise, they may create higher marginal tax rates at certain income levels. Such measures need to be carefully designed.

The graphs below show the tax wedge for a single earner with no children at 50 % and 67 % of the average wage, as well as the change in the tax wedge between 2010 and 2016. The tax wedge for a single person earning 50 % of the average wage is one of the indicators used by the Eurogroup in benchmarking the tax burden on labour (alongside the tax wedge for a single person at the average wage – see above).

Between 2010 and 2017, the average tax wedge slightly decreased for workers earning both 67 % of and 50 % of the average wage, with substantial reductions in some Member States, but increases in others. At 50% of the average wage, decreases of more than 5 percentage points occurred in Romania, Belgium, France, and the UK. For workers earning 67% of the average wage, the most pronounced reductions occurred in Romania (5.0 pp), France (4.0 pp), the UK and Italy (both 3.3 pp).

[53] It might also contribute to sustaining aggregate demand, as low-income earners have a higher consumption rate.

Graph 2.17: Tax wedge for low income earners in EU Member States, 2017



Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

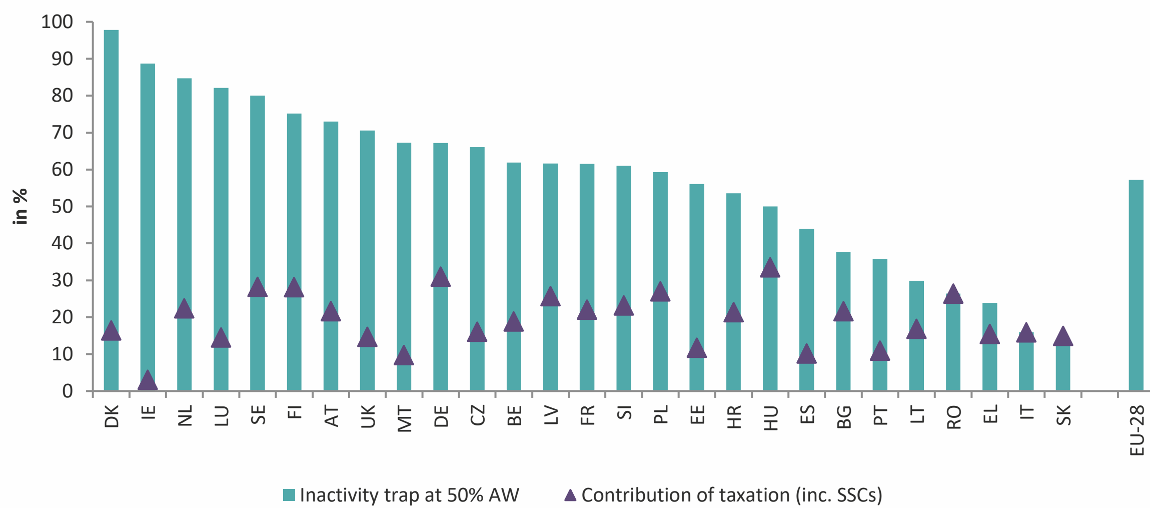
Notes: (1) The data on the tax wedge is for a single earner with no spouse or children at 50 % and 67 % of the average wage. (2) Recent data for Cyprus is not available. 2010 data for HR is not available. (3) The tax wedge is defined as the sum of personal income taxes and employee and employer social security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social security contributions paid by the employer).

The inactivity trap - or the implicit tax on returning to work for inactive persons - measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity (and social assistance) to employment. The 'trap' indicates that the change in disposable income is small and, conversely, the work-disincentive effect of tax and benefit systems is large. Taxation is one element that contributes to the total inactivity trap; other factors include the withdrawal of benefits.

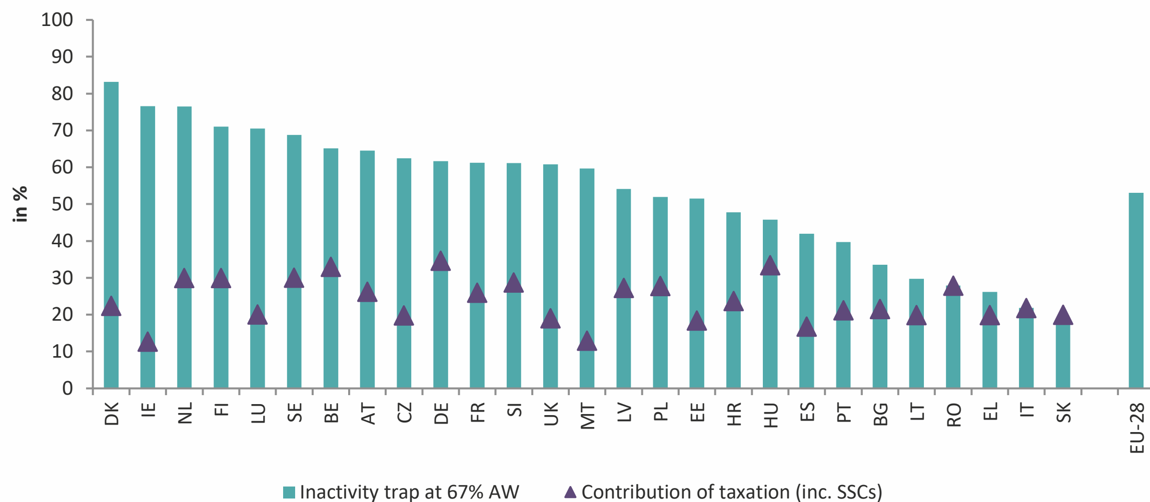
The inactivity trap is most pronounced in Denmark, Ireland, and the Netherlands, both for people earning 50 % and 67 % of the average wage.

Graph 2.18: Inactivity trap for low income earners in EU Member States, 2016

a) at 50 % of average wage



b) at 67 % of average wage



Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

Note: (1) The data on the inactivity trap is for a single earner with no spouse or children at 50 % and 67 % of the average wage. (2) 'Contribution of taxation' refers to the contribution made by taxation and social security contributions to the inactivity trap in percentage points (other contributors being, e.g. withdrawn unemployment benefits, social assistance and housing benefits). (3) Recent data for Cyprus is not available.

2.2.3 Tax burden on second earners

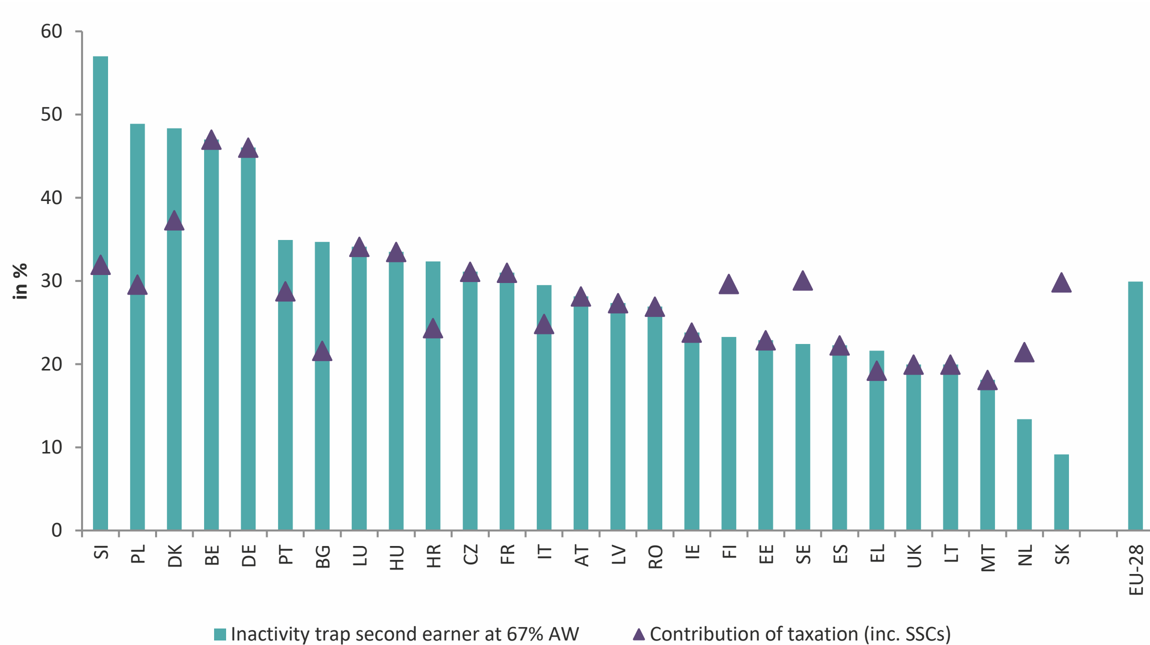
Tax system features such as transferable tax credits and the degree of joint taxation contribute to the variation in the level of the inactivity trap for second earners, alongside features of the benefit system, such as the withdrawal of means-tested benefits. Joint taxation can lower the tax burden for single earner couples or dual earner couples where the distribution of earnings between the partners is unequal. However, it can create higher marginal tax rates for the non-earning partner or lower earner in the couple, as they are effectively taxed at the same marginal rate as their higher earning spouse or partner. This can contribute to maintaining a high gap in employment rates by gender, thereby also contributing to the gender pay gap.

In most Member States the contribution of taxation to the inactivity trap for second earners, in cases where the principal earner earns the average wage, is relatively high. Where the contribution of taxation is higher than the trap itself, it means that other measures, such as in work benefits, compensate for the level of taxation.

It should be noted that other factors, such as the availability of affordable and high quality formal care services, including childcare, as well as well-designed work-life balance policies, can contribute to the decision over whether to enter the labour market, return to work, or increase working hours.

The inactivity trap for second earners is the highest in Slovenia, Poland, and Denmark. The contributions of taxation to the inactivity trap is most pronounced in Belgium and Germany.

Graph 2.19: Inactivity trap for second earners in EU Member States, 2016



Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

Note: (1) The trap data is for a second earner at 67 % of the average wage in a two-earner family with two children; the principal earner earns the average wage (AW). (2) 'Contribution of taxation' refers to the contribution made by taxation and social security contributions to the inactivity trap, in percentage points (other contributors being, e.g. withdrawn unemployment benefits, social assistance and housing benefits). (3) Recent data for Cyprus is not available.

The low-wage trap is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise. For second earners, as with the inactivity trap, taxation plays a very significant role in determining the level of the low wage trap in most Member States. Many low-wage second earners are women working part-time. The graph below shows the percentage of additional earnings 'taxed away' when a second earner increases their earnings from one third of average wage to two thirds of average wage, for example through an increase in hours for a second earner working part-time.

As above, it should be noted that other factors, such as the availability of affordable and high quality formal care services, including childcare, as well as well-designed work-life balance policies, can contribute to the decision over whether to increase working hours.

The low wage trap for second earners is the highest in Belgium, Slovenia, and Portugal. In Belgium and Germany, the contribution of taxation to the low wage trap is most pronounced.

Graph 2.20: Low wage trap for second earners in EU Member States, 2016

Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model, updated 11/04/2018.

Note: (1) The trap data is for a second earner with a wage increase from 33 % to 66 % of the average wage, in a two-earner family with two children; the principal earner earns the average wage (AW). (2) 'Contribution from taxation' refers to the contribution made by taxation and social security contributions to the inactivity trap, in percentage points (other contributors being, e.g. withdrawn unemployment benefits, social assistance and housing benefits). (3) The negative values are explained by the level of additional in work benefits that outweigh the additional taxes and social security contributions. (4) Recent data for Cyprus is not available.

Box 2.3: Emerging forms of work and implications for taxation: Zoom on digital platform work

This box focuses on the emerging digital platform workers to identify some tax policy implications.[54]

Towards new form of work

In recent years, new forms of work have emerged which are challenging the landscape of EU labour markets and contractual relationships. Both globalisation and digitalisation are restructuring the way we work. In addition to changes in the type of tasks due to automation and robotisation, they are also transforming vertical dependent relationships towards more service-oriented, on demand tasks. In many instances, such tasks can be performed remotely, increasing the mobility of labour. Non-standard work contracts have also been a response to the economic crisis, allowing greater level of flexibility on the labour market. Digital platform work is one example of this switch towards new forms of work.

Opportunities and challenges of digital platform work

New forms of work, in particular digital platform work, increase flexibility both for workers (e.g. working hours, time management and location) and for businesses (e.g. allowing them to outsource more activities). As such, it may increase productivity by lowering transaction costs and unlocking previously unused or underused assets.[55] For low-skilled workers and long term unemployed it can be a route out of poverty by reducing barrier to employment. The flipside of such evolution is that it may lead to worsening working conditions, including limited access to training, limited upward mobility, unstable and uncertain working time, lack of job security and weaker social protection. This last point is likely to be one of the most challenging one. The OECD (2018)[56] points out unequal (access to) social protection may lead to a bias in the structure of firms that would shift from a model of dependent work (employees) for which (employer) social security contributions are compulsory towards outsourcing activities to self-employed/platforms workers at a lower labour costs.

Trends (size and profile of workers)

Atypical work has gained in importance over the past 20 years. Although traditional forms of employment remain the norm, the proportion of non-standard contracts[57] has increased in significance while permanent full-time employment as a proportion of total employment has declined by 4 pps during the last 15 years, to below 60% in 2016.[58] Zooming in on digital platform work, one in ten adults has experience in platform work, although income generated there provides a living only for a minority of users (JRC COLLEEM Survey, 2017). The same survey however alerts on the overall growing size of digital labour platforms measured in terms of monetary value and number of transactions.[59]

[54] The box builds on the *Employment and Social Developments in Europe 2018* report, on the JRC COLLEEM survey (2017), on the *World Development Report 2019: The Changing Nature of Work*[54] from the World Bank as well as on the OECD work stream on the *Future of work*.
There is no common agreed definition of 'platform work'. European Parliament (2017) discusses a range of possible definitions in 'The Social Protection of Workers in the Platform Economy', DG for Internal Policies.
[55] Bakhshi et al (Nesta), 2017, p. 25.
[56] http://www.oecd.org/els/soc/Future-of-social-protection.pdf
[57] It refers to any contract of employment that is not issued on a full-time, permanent (open-ended) basis. It includes part-time work, temporary contract and subcontracting arrangements.
[58] European Commission, 2018b
[59] It indicates that the monetary value of transactions within collaborative platforms grew by 56% between 2013 and 2014, and that transactions increased by 77% between 2014 and 2015.

As well as the size of the phenomenon, the profile of workers is also relevant. Platform workers tend to be well-educated. This contrasts with the clerical, often repetitive type of tasks they work on, which do not require a high level of education and for which wages are low. Most of them are freelancers or self-employed with limited market power. As a result of this employment status, they may not be covered by social protection systems. Based on such observations, the ESDE 2018 report warns about the potential vulnerability of this group in the labour market.

What are the potential implications for tax policy?

Although the size of non-standard work, and in particular of digital platform work, remains limited, the growing trends and the working conditions associated to these types of work may have policy implications for taxation in the future.

First, we may need consider the design of taxation to ensure the sustainability of the overall tax mix. Labour taxation (including social contributions) accounts for nearly half of the total tax burden in the EU-28, and more than half in the Euro Area. A rise in non-standard work, including digital platform work, will impact on composition of the labour force, thereby impacting on the labour tax base (e.g. it may shrink due to an increase in contract types where lower or no social security contributions are paid) and may lead to an increase in the mobility of labour (remote work increases the possibility for relocation). At EU level, a first step towards ensuring the overall sustainability of tax revenues is the Digital Tax package that proposes to adapt our corporate tax rules to the modern economy (see section 3.2 on EU tax policy agenda). Box 2.4 investigates implications of the overall tax mix for progressivity.

Second, the impact of platform work on tax administration and tax compliance need to be duly taken into account. While taxes for employed workers are generally collected via withholding taxes, digital platform work tends to fragment activities previously performed under a unique contract and to move towards legal statuses work generally taxed via self-assessment, meaning that collection via withholding taxes may no longer be feasible. This would increase both the compliance cost for individuals and the enforcement costs for tax administrations. It may exacerbate the risk of tax fraud (e.g. underreporting of income), error of reporting and avoidance (e.g. through ambiguity in the definition of different contract types). Nevertheless, new technologies and digitalisation could provide opportunities to help taxpayers and tax administrations to record and track income generated online, in particular through the cooperation of platforms.

Third, the increasing significance of this new forms of work may lead to a need to rethink/reshape the way social protection is financed (and accessible). The current systems of social protection may no longer be fit for purpose. They are mainly based on contributory-basis, designed at the time where the norm was full-time employment in a single and stable activity with a dependent employment relationship. Such schemes are difficult to implement in practice with independent work arrangements, resulting in limited access to social protection. As part of the measures linked to the European Pillar of Social Rights, the Commission has made a proposal for a Council Recommendation on Access to Social Protection for workers and the self-employed.[60] This aims to encourage Member States to close formal coverage gaps for workers in non-standard employment and the self-employed, take measures to facilitate adequate effective coverage for these groups, and increase the transparency of the system with regard to social security systems and rights.

[60] COM(2018) 132 final

2.2.4: Scope to shift taxes away from labour

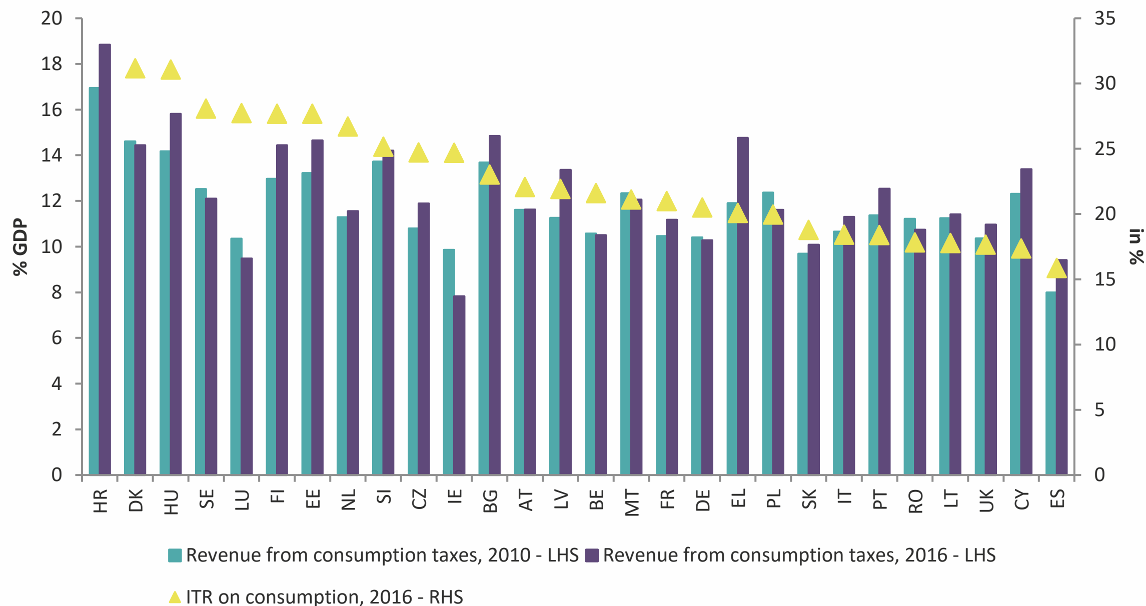
Labour tax cuts can improve work incentives and help address challenges with unemployment or activity rates. As set out above, since only a few Member States have fiscal space to consider uncompensated labour tax cuts, the financing of such tax cuts needs to be considered. Potential financing options could be revenue-neutral tax shifts or expenditure cuts.

A tax shift away from labour towards other revenue sources may help to stimulate growth and to increase employment and investment. It is generally considered that some types of tax bases are less detrimental to growth, for instance, consumption taxes, recurrent housing taxes and environmental taxes.[61] However, some recent economic literature points to heterogeneity of responses, non-linear effects and differences in amplitude between the short-term and long-term effects.[62] The detailed design of a tax is at least as important as the type of tax.

When identifying alternative sources of revenue, it is also important to consider potentially regressive distributional impacts of increasing taxation in these areas and possible remedies, as well as potential distributive impacts between generations.[63] In addition, shifting taxes to consumption could counter the intended reduction of labour costs, if increases in prices lead to wage increases.

The graph below shows revenues from consumption taxes as a percentage of GDP for each EU country. It also shows the implicit tax rate on consumption in Member States, which is defined as the ratio of revenue from all consumption taxes to households' final consumption expenditure.

Graph 2.21: Tax revenues from consumption taxes and implicit tax rate (ITR) on consumption, 2010-2016



Source: European Commission (2018a) based on Eurostat data
Note: Implicit tax rate on consumption not available for HR.

[61] OECD, 2010
[62] Baiardi, Profeta, and Scabrosetti, 2017
[63] Auerbach and Kotlikoff, 1987

Recurrent property taxation is a second type of taxation, which could be considered to balance labour taxation reductions. The graph below shows revenue from recurrent property taxes as a percentage of GDP in EU Member States. Recurrent property taxes remain low in a majority of Member States and there may be scope to increase them, while avoiding negative redistributive impacts on low-income households. In countries where the current systems of housing taxation rely heavily on transaction taxes, an internal shift from transaction taxes towards recurrent taxes could also bring efficiency gains.

Graph 2.22: Tax revenues from property taxes as percentage of GDP, 2010-2016

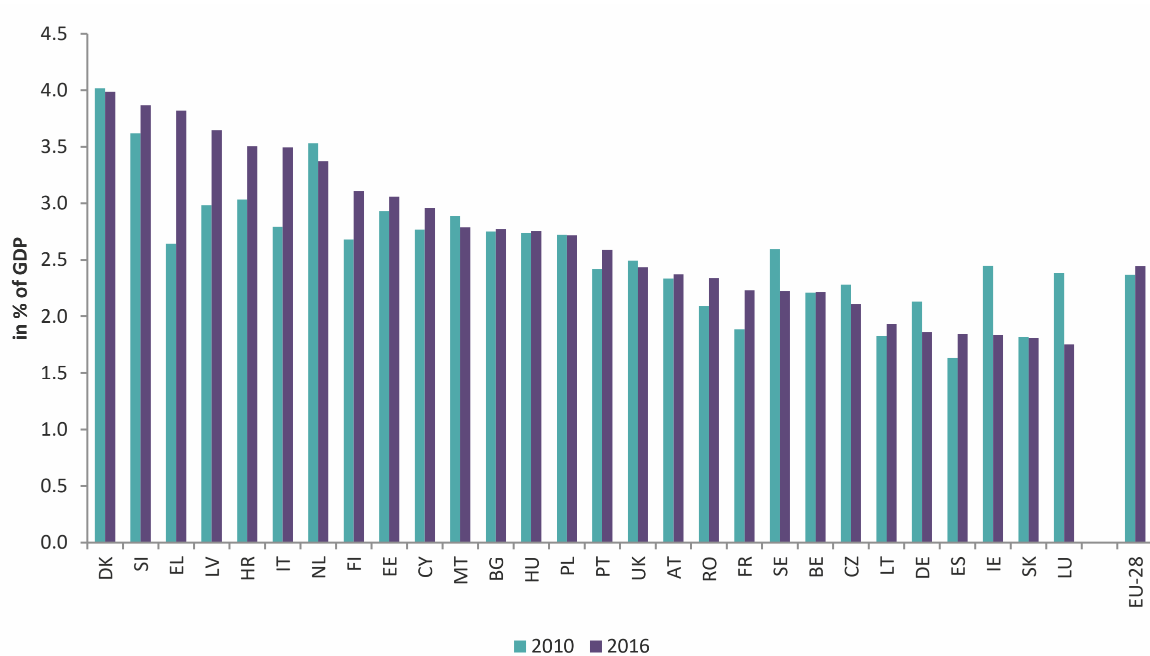
Source: European Commission (2018a) based on Eurostat data

Notes: (1) Data does not include personal income tax on imputed rents. (2) There is no recurrent real estate tax in Malta. (3) Member States are ranked in descending order by the magnitude of the recurrent property taxes in 2016 expressed as percentage of GDP (4) Taxes on realised nominal holding gains are not included.

A third type of taxation that could be considered to balance labour tax cuts is environmental taxation. In addition, environmental taxation can contribute to fairness by pricing in the negative externalities of polluting or other damaging activities and help to incentivise behavioural change (see also section 2.1.4). However, effective environmental taxation policy will result in a reduction in the taxable base, and therefore to a drop in revenue (if tax rates remain the same).

The graph below shows revenue from environmental taxes, which comprise taxes on energy, transport, pollution and resources, as a percentage of GDP. Overall, revenue from environmental taxation in the EU has been broadly stable between 2010 and 2016, rising slightly as a share of GDP, but decreasing slightly as a share of total taxation. Changes in environmental tax revenue can be driven not only by changes in tax rates, but also by changes in the tax base. For example, it is notable that over the same period (2010-2016) both gross inland and final energy consumption decreased in the EU as a whole.

Graph 2.23: Environmental tax revenue, 2010-2016



Source: European Commission (2018a), based on Eurostat data.

Note: Environmental taxes are classified into four main categories - energy, transport, pollution and resource taxes. Energy taxes include taxes on energy products used for both transport and stationary purposes. Transport taxes include taxes related to the ownership and use of motor vehicles. They also include taxes on other transport equipment such as planes and on related transport services. Pollution taxes include taxes on measured or estimated emissions to air (except taxes on carbon dioxide emissions) and water, on the management of waste and on noise. Resource taxes include any taxes linked to the extraction of use of a natural resource.

2.3 Correcting inequality and supporting social mobility

This section focuses on the role of taxation in mitigating inequality and fostering social mobility. It sketches out how equal EU societies are and to what extent they allow for social mobility. The section also provides an indication of the impact of the tax system in different Member States on inequality.

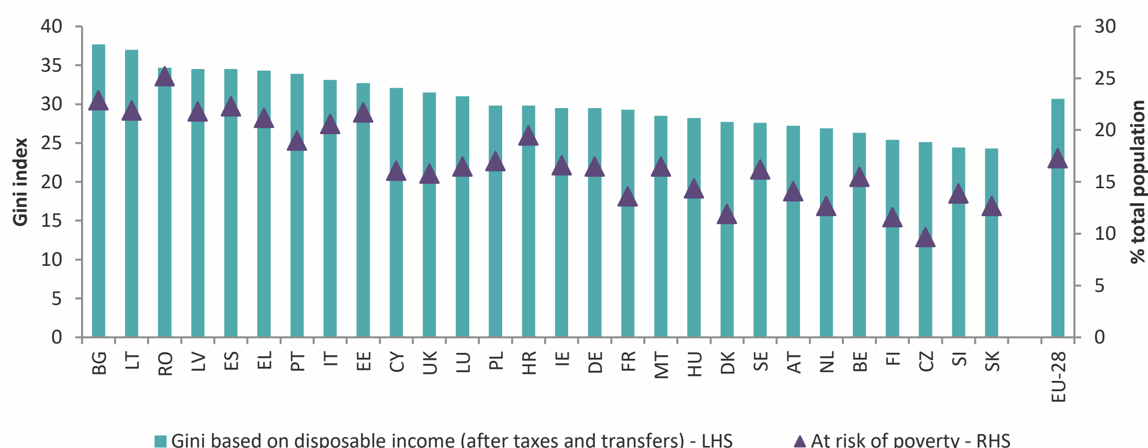
2.3.1. Inequalities in Europe

Inequality at the global level has declined substantially over the past three decades.[64] However, within national boundaries, the picture is much more contrasted. Some countries have experienced a reduction in inequality while others, particularly advanced economies, have seen a significant uptick in inequality since the 1980s.

While the EU is faring relatively well compared to other parts of the world in terms of inequality of disposable income, there is no denying that there are significant income and wealth inequalities in our societies. During the last decade, after years of increase, disposable income inequality in the EU has remained broadly stable, among others due to functioning automatic stabilisers in times of the financial and economic crisis.[65]

The graph below shows complementing indicators for income inequality: The left hand side depicts the level of income inequality according to the Gini index based on disposable income after taxes and transfers. The right hand side depicts the population at risk of monetary poverty in the Member States. While the Gini index reflects income inequality across the income distribution, the at risk of poverty indicator emphasis inequality of lower income groups, to closer reflect social challenges in the Member States.

Graph 2.24: Level of income inequality in EU Member States, 2016



Source: Eurostat, EU-SILC. 2016 ilc_li02 and ilc_di12

Notes: (1) Left axis: Gini coefficients. The scale ranges from 0 to 100. The value 0 corresponds to perfect equality (same income to everybody) while 100 corresponds to maximum inequality (all income distributed to only one person and all the others have nothing). (2) Right axis: At risk of poverty rate as percentage of the total population. The indicator depicts the share of the total population earning less than 60 % of the median equivalised income after transfers and taxes (3) EU-28 average is calculated as the population-weighted average of individual national figures. (4) EU-SILC 2016 data are based on income generated in 2015 (with the exception of IE and UK, where it is based on income generated in 2016).

The increasing accumulation of private wealth in Europe over the past 40 years and the rise in inequalities sparked an intense public debate on the fairness of existing tax systems. Wealth inequality is higher than income inequality.[66,67] Excessive inequality may erode social cohesion,

[64] This development was largely due to substantial income growth in countries that were among the poorer, particularly China in the period from 1985 to 2000 and India since 2000 (See Milanovic, 2016).

[65] Some indicators, such as the S80/S20 show a slight increase of disposable income inequality from 5.0 to 5.2.

[66] OECD, 2015b

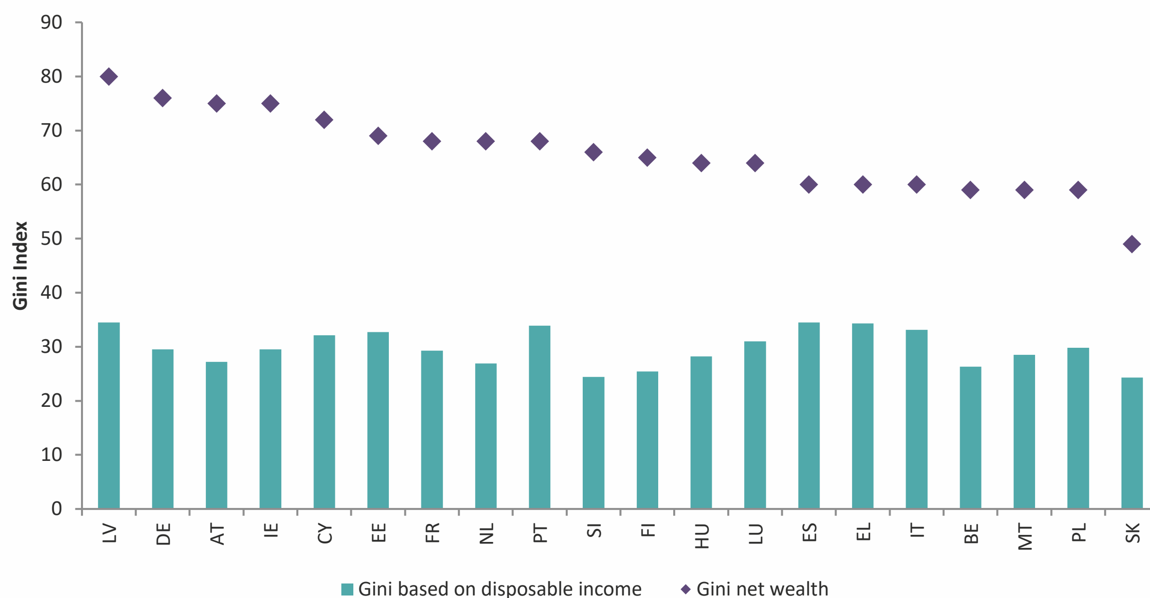
[67] The extent of wealth inequality is presumably underestimated. This is partly because top wealth is likely to be underrepresented in household surveys (see Bach et al., 2018), which is also the case for top incomes and therefore income inequality. But it is also due to tax evasion by wealthiest (see Alstadsæter et al, 2017).

hamper growth[68] and lead to political polarisation. This holds particularly for wealth inequality, as it has a number of specific features:

- Unequal distribution of wealth tends to exacerbate income inequality, due to the income generated from wealth.[69]
- Wealth – and particularly inherited wealth – explains to a large part the opportunities available to individuals.[70] Unequal distribution of wealth thus impacts social mobility negatively.[71]
- Whereas labour income is the result of market activity which in general benefits other market participants and society generally, wealth which accrues through capital gain or inheritance does not improve the productive capacity of the economy.
- Wealthy individuals often have more access to tax relief and more opportunities to avoid taxes.[72] Alstadsæter et al. (2017) provide empirical evidence suggesting that tax evasion rises sharply with wealth.
- Wealth ensures personal independence and provides power and influence.[73] This may lead to biased policy choices favouring the wealthy, which could further increase the concentration of wealth.[74]

Some inequality is inevitable in market-based economies and even considered a fair result if is the outcome of differences in effort. That said, the adverse consequences of excessive wealth inequalities have led to the recognition that inequality needs to be addressed from a joint income and wealth perspective.

Graph 2.25: Level of income equality (2016) and wealth inequality (2014)



Source: European Commission services; computations based on ECB, 2016b and Eurostat, EU-SILC 2016, ilc_di12

Notes: (1) Net wealth is defined as the difference between households' total assets and their total liabilities. (2) No comparable data available for BG, CZ, DK, HR, LT, SE, RO, UK. (3) EU-SILC 2016 data are based on income generated in 2015 (with the exception of IE and UK, where it is based on income generated in 2016).

[68] Ostry J.D., Berg A., Tsangarides C., 2014
[69] OECD, 2017b
[70] Palomino, J., Marrero G., and Rodriguez J., 2017
[71] Oxfam, 2018
[72] For instance, since households with high incomes are more likely to be homeowners, they benefit more from deductions for mortgage interest, where applicable. In addition, the wealthier have more resources to dedicate to tax planning, as well as greater incentives to engage in such activities.
[73] Braga B., McKernan S.-M, Ratcliffe C., and Baum S., 2017
[74] A lack of (perceived) influence of the not-wealthy might also increase disenchantment with politics in general. Unequal distribution of wealth could thereby impact on the level of political participation.

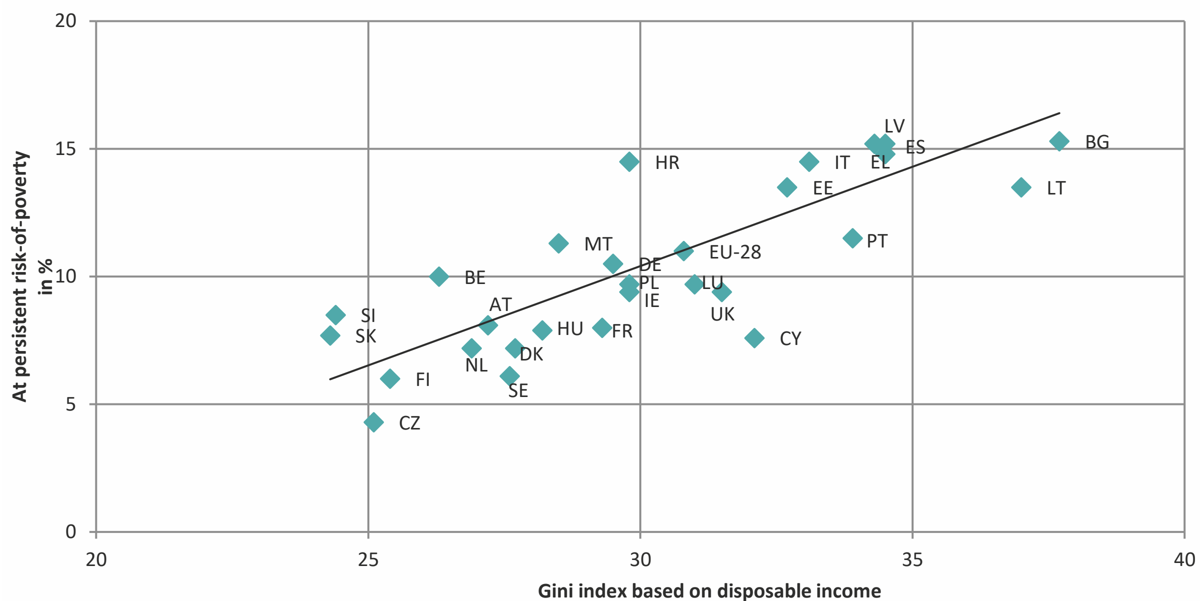
2.3.2 Social Mobility in Europe

Fairness and social mobility build on the perspective for a brighter future, that everyone has the same chance in life of developing his/her own project and to move up on the income scale. Greater inequality is associated with less social mobility across generations.[75] Social mobility can be both intra-generational and inter-generational.[76] Intra-generational mobility refers to the chance of moving up or down (for example along the income ladder) during the life course. Intergenerational mobility refers instead to which extent an individual's chances are related to their parents' education, class or income.[77]

This section explores the link between inequalities and indicators of intra-generational and intergenerational mobility. One relevant indicator to appreciate the level of intra-generational mobility is the persistence of the risk of poverty. The graph below links this indicator with a measure of inequality (expressed by the Gini index of disposable income). It appears that there is a positive correlation between those two, suggesting that intra-generational mobility tends to be lower in more unequal societies.

Graph 2.26: Correlation between inequality and persistent risk of poverty, 2016

Correlation coefficient: 0.79 (significant at 5 %)



Source: Eurostat, EU-SILC, 2016, ilc_di12 and ilc_li21

Notes: (1) The scale of Gini coefficients ranges from 0 to 100. The value 0 corresponds to perfect equality while the value of 100 corresponds to maximum inequality. (2) The "at-persistent-risk-of-poverty" rate is defined as the percentage of the population living in households where the equivalised disposable income was below the at-risk-of-poverty threshold for the current year and at least two out of the preceding three years. (3) For IE, the 2016 data for the indicator "at-persistent-risk-of-poverty" are not yet available. We therefore use for the purpose of this graph the 2015 data both for the "at-persistent-risk-of-poverty" indicator and for the Gini index. (4) EU-28 average is calculated as the population-weighted average of individual national figures. (5) EU-SILC 2016 data are based on income generated in 2015 (with the exception of IE and UK).

[75] Corak, 2013

[76] European Commission, 2017e

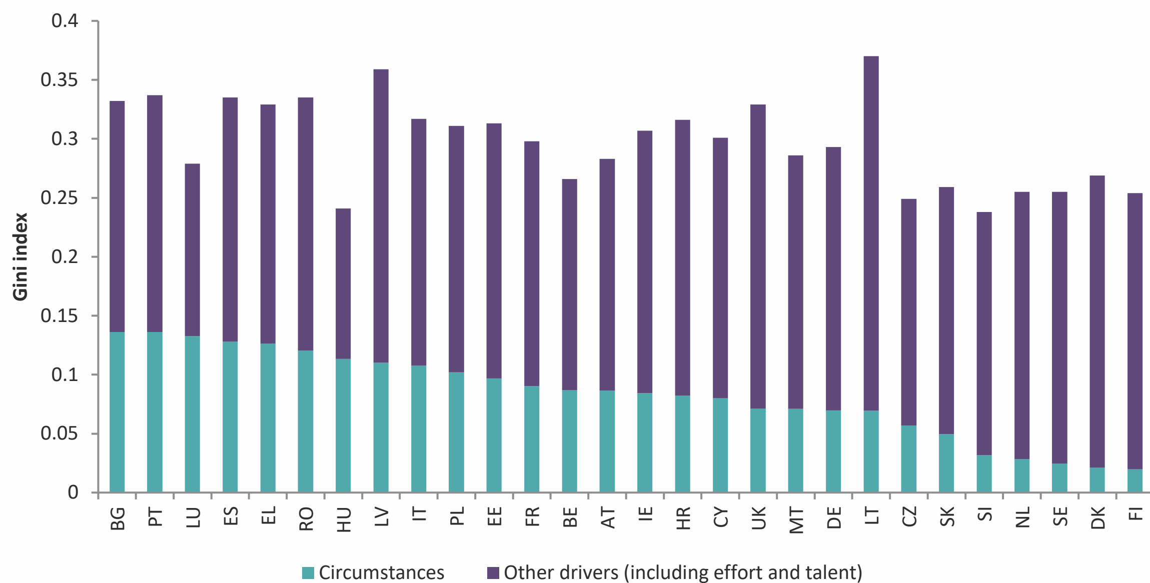
[77] One could also look at absolute social mobility which measures whether living standards have increased overall from one generation to the next, but it is not the focus of this analysis.

An important aspect of social mobility is intergenerational mobility, which is closely linked to equality of opportunities.

Some economists distinguish between fair and unfair inequality. For example, if income inequality is the result of different effort levels, then this is seen as a fair outcome. If, however, income inequality is driven by circumstances beyond individual control, then this is perceived as unfair.

The graph below isolates the share of income inequality that is a result of the following circumstances: (i) gender, (ii) parental education, (iii) parental earnings, and (iv) the area of birth, and shows how largely it contributes to overall disposable income inequality.

Graph 2.27: Disposable income inequality explained by circumstances, 2011



Source: Graph based on Brunori P. (2018) using EU-SILC 2011 data

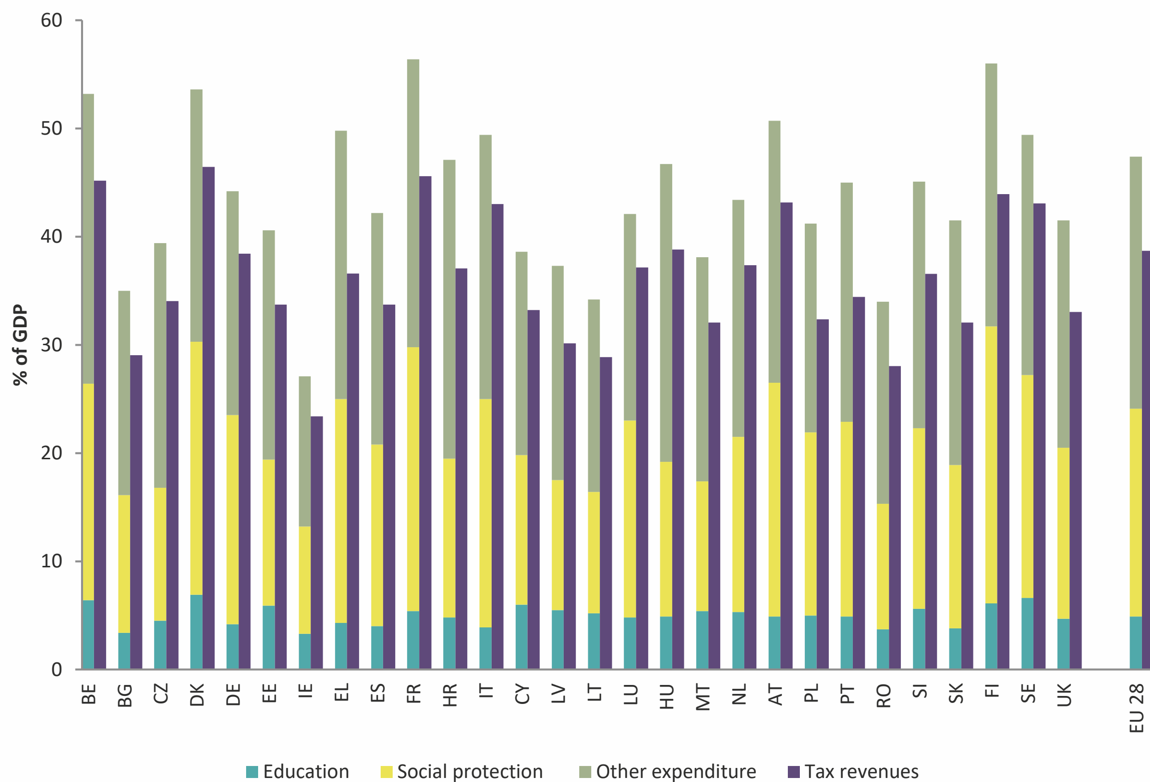
Notes: (1) The scale of Gini coefficients ranges from 0 to 100. The value 0 corresponds to perfect equality while the value of 100 corresponds to maximum inequality. (2) The graph depicts "circumstances" that are observable and available in the micro-data. They are typically a subset of the real number of exogenous variables affecting individual outcomes, which is likely to result in a downward bias of the estimates. (3) EU-SILC 2011 data are based on income generated in 2010 (with the exception of IE and UK, where it is based on income generated in 2016).

2.3.3 Addressing inequalities and fostering social mobility

Taxation has a role to play in mitigating inequalities and/or supporting social mobility, be it through pre-distribution, redistribution or correcting/incentivising behaviours.

There are different social models in Europe and the amount of public money necessary to finance them varies. Graph 2.28 (below) shows money spent on education, social protection and other expenses in Member States. Providing access to quality education or healthcare is crucial for equal opportunities.

Graph 2.28: Government expenditure & tax revenues, 2016

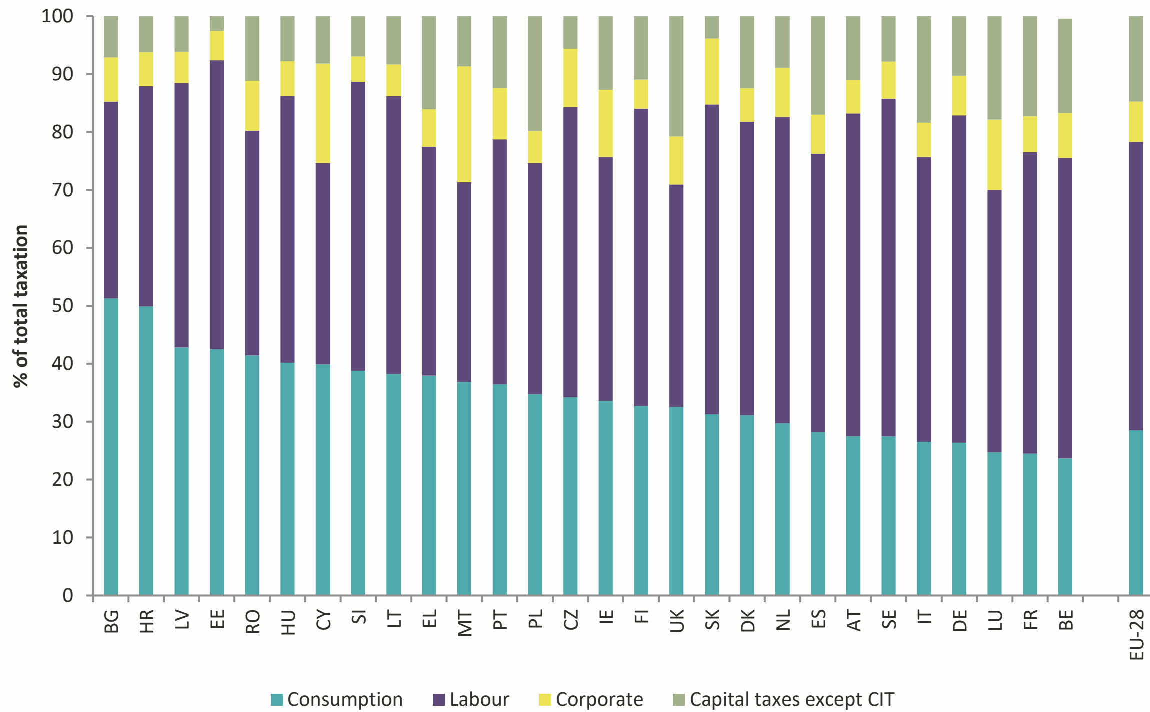


Source: DG Taxation and Customs Union, based on Eurostat data
Note: The tax-to-GDP ratio shows the total receipts from taxes and compulsory actual social security contributions. Other sources of revenue (such as the sales of goods and services (issuance of licences, rentals of produced assets), property income (interests, dividends, rent income), other current transfers (from international institutions), other subsidies on production, and other capital transfers and investment grants) are not shown.

Securing sufficient funds to finance public expenditures should rely on a) the right mix of taxes, taking into account investment (see section 2.1), and employment (see section 2.2) considerations and b) ensuring that each member of a society pays his/her fair share, be it through effective enforcement and/or increasing voluntary compliance (see section 2.4).

Member States differ in the design of their tax systems according to tax rates and the choice of which activities to tax. Graph 2.29 shows the structure of taxation by economic function in Member States, illustrating the variation between countries.

Graph 2.29: Structure of taxation by economic function of the tax base, 2016



Source: European Commission (2018a) based on Eurostat data
Note: (1) For the purpose of this graph, 'Capital' taxation includes all other categories not classified as labour, corporate or consumption. (2) Labour taxation includes employers' and employees' social contributions.

Box 2.4: Progressivity of the tax mix

Evidence suggests that the role of fiscal redistribution in offsetting increases in market income inequality has weakened somewhat in recent decades,[78] amongst others due to a reduction of the overall progressivity of tax systems.[79] This trend has come to a halt in recent years in the EU-28, where redistribution was largely stable, after a slight increase during the crisis years. Progressivity of the tax system refers to how the tax burden is shared across taxpayers, taking into account all types of taxes.[80] Delivering a progressive tax system therefore implies rethinking the tax mix and the rate schedules. Furthermore, progressivity assessments should be performed on overall policy packages, including social spending.

In the EU on average, half of the tax revenues stem from labour taxation – consisting of income taxes as well as employers' and employees' social contributions - and almost 30 % stem from consumption taxes. Revenues from capital taxation – including corporate income taxes – represent only a small share of the tax mix in the European Union (see graph 2.29).

The personal income tax is the most important tax instrument to redistribute income. Research suggests that progressive and thus redistributive labour taxation does not necessarily have to be at the expense of efficiency considerations. The OECD (2017b) finds that greater progressivity at lower-middle income levels (in the form of lower tax wedges on low income earners) is associated with higher long-term output, while greater progressivity at upper-middle income levels hurts long-term output, which suggests some form of efficiency loss. The IMF (2017) argues in line with recent literature[81] that higher progressivity might create incentives for individuals to reduce the number of hours worked, but that the associated efficiency losses are offset by the equity gains. In addition, it argues that there are also efficiency gains through a reduction in unemployment and a rise in employment, leading to an improved overall labour market performance. A EUROMOD simulation of a budget-neutral introduction of progressivity in labour taxation[82] in seven EU Member States with flat tax system finds that the simulated reforms could reduce inequalities and create work incentives for low and middle income groups in a revenue neutral way.[83]

While labour taxation is indeed an effective way of ensuring redistribution, it is not the only one. It is of great importance to assess the overall progressivity of the tax mix. Traditionally, it has been argued that taxes should be shifted away from labour towards consumption, property and environmental taxation, which were considered least detrimental to growth (See also section 2.2.4). However, it is now acknowledged that distributional impacts need to be duly taken into account, and

[78] IMF, 2017

[79] This reduction in progressivity might even be more pronounced than suggested by tax policy choices, because wealthy individuals often have more access to tax relief and more opportunities to avoid and evade taxes (Alstadsæter et al., 2017).

[80] In order to understand how the tax burden is shared, one needs to take into account the incidence of taxes, which is influenced by price elasticities of supply and demand.

[81] Lehmann et al, 2015

[82] The simulation compares two reform options: i) Introduction of a progressive tax rate schedule combined with a refundable in-work tax credit; ii) Increase/introduction of a basic tax-free allowance with a phasing out, compensated by an increase in the flat personal income tax rate.

[83] Barrios S. et al., 2018

that the design of the tax matters.

- Distributional implications of recurrent property taxation depend on the distribution of property ownership and the design of the tax. For example, it could serve as a tool of redistribution if it is designed progressively.[84]
- Evidence suggests that greater reliance on environmental taxes could be associated with higher disposable income inequality.[85] This is, however, not reason enough to discard such taxes. Environmental taxation allows to put the tax burden to tax bases linked to consumption of natural resources and to combating pollution. It favours a behavioural change with a view to long-term (environmental) sustainability and can support intergenerational fairness.
- Consumption taxes' immediate distributional impact is either regressive or proportional, depending on the type of measurement.[86] Either way, consumption taxes have a greater negative immediate impact on the wellbeing of the poor than of the rich. Reduced consumption tax rates are not an effective tax instrument for redistribution.[87] However, non-progressive but efficient taxes, such as the VAT, are suitable financing instruments for progressive spending,[88,89] and can thereby contribute to redistribution.
- Tax mixes that rely more on inheritance and wealth taxes are linked with smaller disposable income inequality, as they can contribute to reducing inequalities in wealth and the income from it.[90] A shift to taxation of inheritance and wealth could thus be explored (See box 2.5 on inheritance and gift taxes).
- Shifting taxation away from labour across the board also means that the abilities to redistribute through progressive labour taxation shrinks, even if the level of progressivity is unchanged.

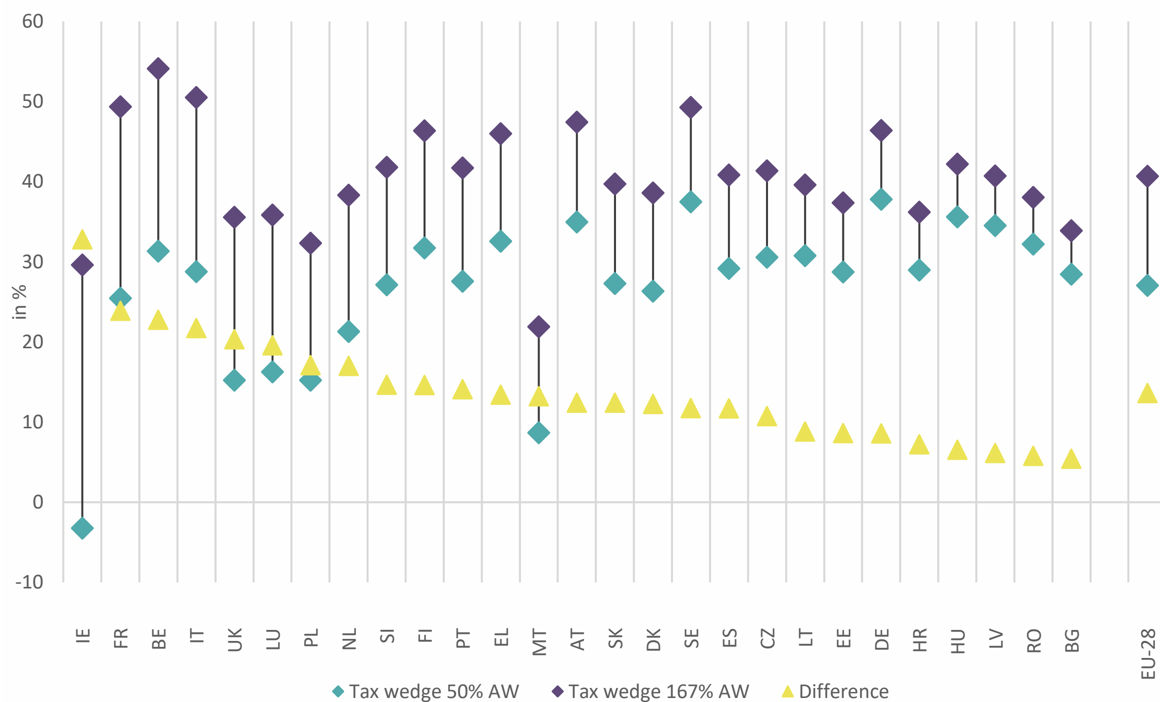
Looking ahead, societal changes may reduce income from labour and thereby labour tax revenues. Taking into account the international 'race to the bottom' of corporate taxation this might call into question the sustainability of the current tax mix.

[84] Lithuania introduced some progressivity in its property taxation linked to the value of the property, but also taking into account the household composition (e.g. number of children) of the property owner.
[85] OECD, 2017b
[86] Depending on the indicator, the distributional impact of VAT is either regressive, when assessed as a share of gross income by income decile, or largely proportional, when assessed as a share of expenditure by income decile. OECD (2014) argues that the latter indicator would be more suitable, as the former is highly distorted by savings behaviour, because it does not take into account that savings are eventually spent. However, this argument assumes constant VAT rates, and ignores tax evasion and avoidance, or more simple, the option that savings are spent in non-VAT jurisdiction.
[87] The introduction of reduced VAT rates is sometimes justified by equity concerns. However, the redistributive effectiveness of those measures is rather low, as higher income groups benefit as well, and to a higher extent in absolute numbers. But what is more, many reduced rates apply for goods or services (e.g. hotels and restaurants) that are not predominantly consumed by lower income groups.
[88] IMF, 2017
[89] In addition, Ciminelli et al. (2017) find that, though indirect taxes are likely to increase consumption inequality, they might reduce income inequality, due to increased labour market participation.
[90] OECD, 2017b

Progressivity of personal income taxation is one important redistributive measure of tax and benefit systems. The progressivity of the income tax systems and in particular the tax burden placed on low income earners is also relevant to employment creation, which is a route out of poverty and social exclusion.

The graph below shows the degree of progressivity of labour income taxation by comparing the tax wedge on high income and low income earners (represented respectively by individuals earning 167 % and 50 % of the average wage). The progressivity is theoretical, based on standard rates. Neither does it take into account tax abuse, nor is it based on the actual income distribution. Instead, it indicates the policy choices of Member States made regarding the progressivity of labour income taxation, including the level of social contributions and family allowances & benefits.

Graph 2.30: Degree of progressivity of labour income taxation in EU Member States, 2017



Source: European Commission services based on Eurostat and OECD data.

Notes: (1) The indicator is based on tax wedge data for a variety of family compositions (single, one earner couple, two earner couples, all three without and with two children). Those are then weighted according to their prevalence in the respective Member State (2) The setup of two earner couples combines a person earning 67 % of the average wage with either a person earning 50% or 167 % of the average wage (3) Recent data for Cyprus is not available. (4) Countries are ordered in descending order by the magnitude of the difference between the tax wedge at 167 % average wage and the tax wedge at 50 % average wage.

Graph 2.31 depicts the corrective power of tax and benefit systems on income inequality, based on actual income data. It is in that regard complementary to the progressivity indicator depicted in Graph 2.30. It compares market and disposable income inequality at four stages expressed by the Gini index:

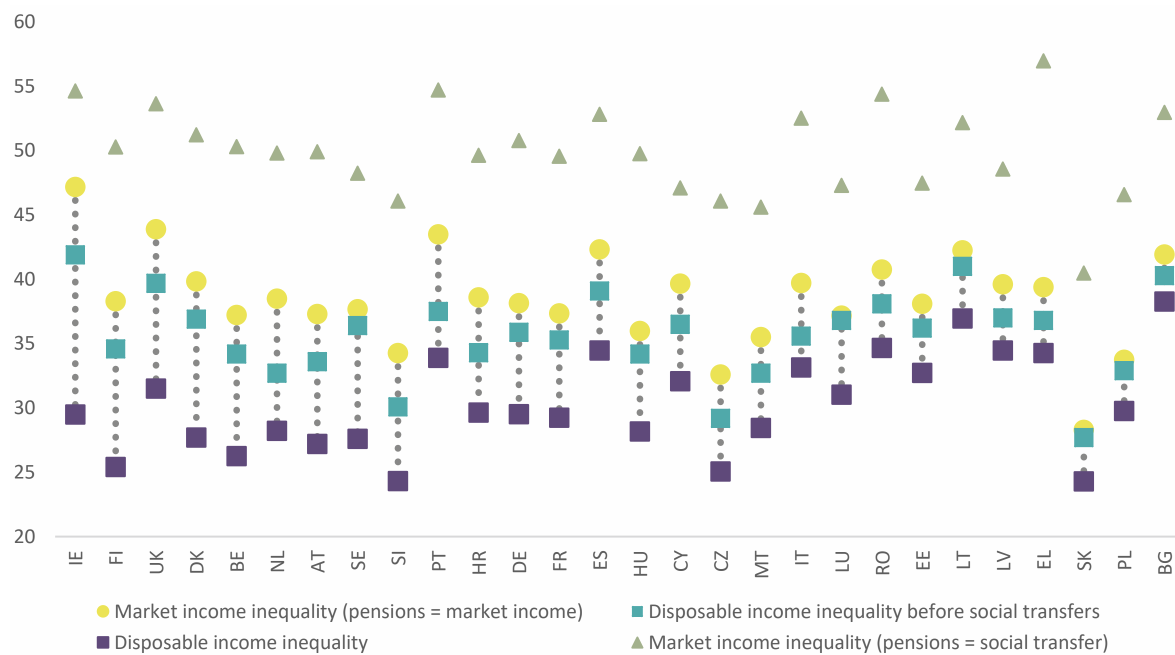
a) Market income inequality (excluding pensions from market income);
b) Market income inequality (including pensions in market income[91]);
c) Disposable income inequality (before social transfers); and
d) Disposable income inequality.

The difference between b) and c) depicts the redistributive impact of taxes on income inequality, while the difference between c) and d) depicts the extent to which social transfers[92] reduce income inequality.

The graph illustrates that whilst tax-and-benefit systems act to combat income inequalities in all Member States, the scale of their effect differs. Furthermore, it varies among Member States, whether taxation (e.g. Portugal, Italy, Netherlands) or transfers (e.g. Sweden, Slovakia, Poland) contribute more to redistribution.

Income inequality remains high in certain Member States, including some where the redistributive effect of taxes and benefits is relatively low.

Graph 2.31: Corrective power of the tax and benefit systems in EU Member States, 2016



Source: Commission services calculations based on Eurostat data

Notes: (1) Income data are adjusted for household size (equalisation). The scale of Gini coefficient is from 0 to 100. The value 0 corresponds to perfect equality (same income to everybody) while 100 corresponds to maximum inequality (all income distributed to only one person and all the others have nothing.) (2) EU-SILC 2016 data are based on income generated in 2015 (with the exception of IE and UK.)

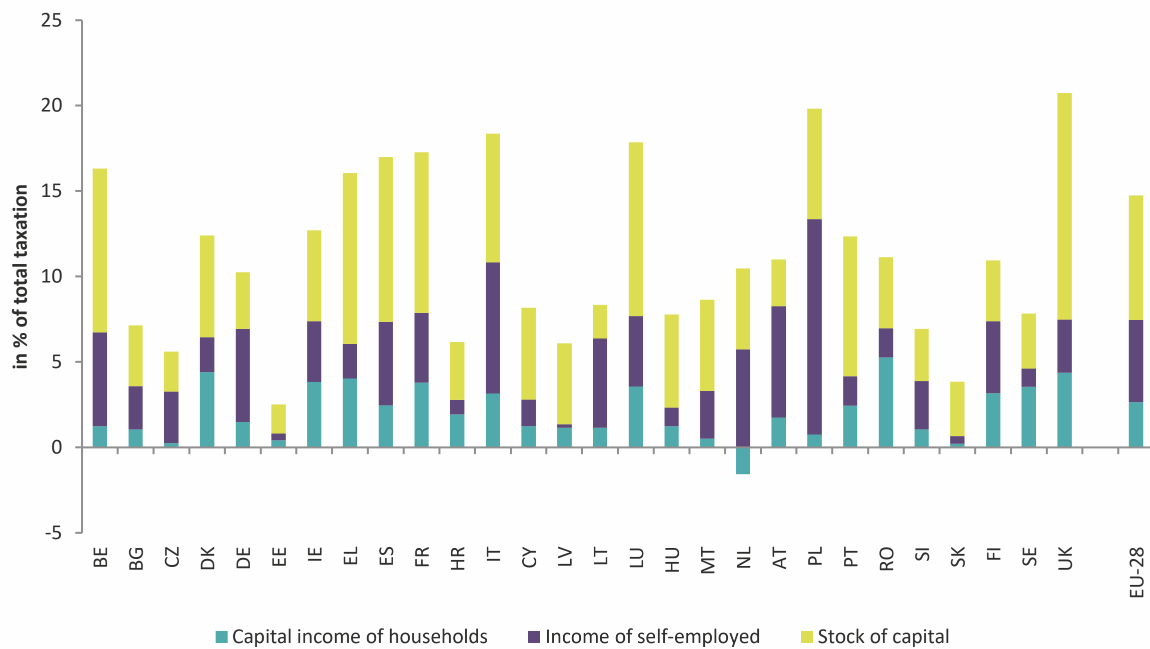
[91] Pensions are sometimes considered as social transfer. In that case, households that rely solely on pension income would have a market income of zero, which somewhat artificially inflates the level of market income inequality. For this reason and because pensions are often to some extent linked to lifetime social contributions, for the purpose of this analysis, we prefer to consider pension income as market income.

[92] Unemployment benefits, family benefits, sickness benefits, disability benefits, and education related allowances.

In addition to mitigating income inequality, taxation could also play a role in reducing wealth inequality and contribute to equal opportunities. For example, capital taxation of individuals may be a relevant means to ensure fairness in opportunities and a more equal distribution of wealth, with due consideration for efficiency aspects (see box 2.5 on inheritance and gift taxes).

Graph 2.32 below depicts the share of capital tax revenues excluding CIT by Member State. Overall, taxation of capital stock (including property taxes) represents the largest share of the three categories of capital taxes. This being said, EU-28 tax revenues from capital stock account for only 2.8% of GDP in 2018.

Graph 2.32: Capital tax revenues except CIT as a % of total taxation, 2016



Source: European Commission (2018a)

Note: A special provision applies to the capital income of owner-occupied property in the Netherlands. This is taxed at a notional rental value, which represents the balance of revenue and expenses connected with the use of the dwelling, and is assessed using statutory tables. For many households, the deduction for mortgage interest payments exceeds the taxable income from capital, which explains the negative tax revenues from capital income of households.

Box 2.5: Mitigating wealth inequality and promoting social mobility: Zooming in on inheritance taxes

This box reflects the re-emerging debate among researchers and policy makers on the use of inheritance taxes as a tool for fair and efficient taxation. Excessive income and wealth inequalities may be detrimental to economic growth, to macro-economic stability, and social cohesion (see section 2.3.1). Capital taxation of individuals can play a role in mitigating such inequality in a way that supports social mobility and ensures equality of opportunities.

Recent literature identifies well-designed inheritance and gift taxes as well as capital gains taxes as suitable means to fight wealth inequality in a least distortive manner and with an acceptable level of administrative complexity.[93] The arguments for having a net wealth tax in addition to broad-based capital income taxes and inheritance/gift taxes seem weak. Net wealth taxes are considered particularly distortive and are complex to administer, given the difficulties to trace back wealth ownership and valuate wealth.[94] Furthermore, though intriguing from a fairness perspective, they often fail to meet their redistributive goals.[95]

Rationale

Capital stock and capital income are particularly unequally distributed.[96] Furthermore, they are less choice-related than labour income. Capital that stems from unchosen advantages, such as inheritance, could thus be a source of taxation that mitigates inequalities and supports equality of opportunity and intergenerational mobility through various channels:

1. Access to quality education and health care matter to enhance equality of opportunities. Inheritance and gift taxes, could support these goals by contributing to their financing.
2. Inherited wealth contributes substantially to growing wealth inequality (see graph 2.32 below). Taxing inherited wealth would therefore serve the goal of reducing wealth inequality.
3. Subsequently, inheritance and gift taxes could support social mobility by reducing the extent to which wealth inequalities and disadvantages are transmitted from one generation to another.

In addition, research suggests that greater reliance on inheritance and gift taxes appear to be more growth-friendly compared to labour taxation and other forms of capital taxation. Gift taxes are a necessary complement to inheritance to prevent, particularly the very rich, from organising their affairs with a view to avoid taxation.[97]

Concerns

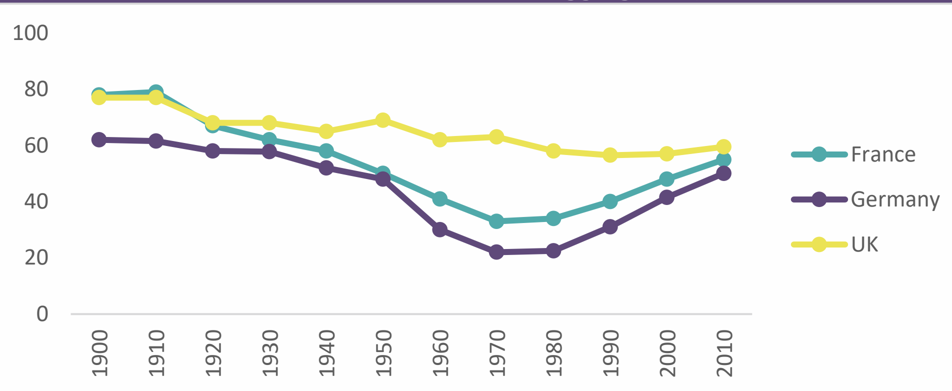
Inheritance taxes are often perceived to be unfair. They primarily impact the middle classes, since the very wealthy have greater estate planning and avoidance opportunities than, for example, those whose wealth is tied up in the family home. Also, the notion of double taxation leads to criticism: As some argue, the wealth subject to inheritance or gift taxes has already been taxed, when it was earned. However, this does not hold true from the perspective of the recipient. Furthermore, this principle would apply to other forms of taxation such as consumption taxes.

One possible explanation for the public's particular discontent with inheritance and gift taxes is a prevalent notion in the EU Member States that one should (after death) be allowed to take care of ones close relatives and that taxation should not overly obstruct this.

Many of the aforementioned concerns could be addressed through proper design.

[93] OECD, 2018
[94] Bach, 2016
[95] Although tax systems relying on net wealth taxes are linked with lower inequality, the extent to which net wealth taxes reduce inequalities is rather modest. This is partly because of the fact that the very rich are able to escape net wealth taxes.
[96] Saez, E. and S. Stantcheva, 2018
[97] Institute for Fiscal Studies, 2011

Graph 2.33: Stock of inherited wealth as a % of aggregated private wealth, 1900-2010



Source: Piketty et. al. (2017)

Overview in EU

18 of 28 Member States apply a tax on inheritance and/or gifts (see figure 2.2 below). However, revenues from inheritance & gift taxes are relatively low in Europe, representing less than 1% of GDP in all Member States. Next to pure inexistence of such taxes, this is, amongst others, because close relatives enjoy lower rates, higher exemptions or a combination of the two.[98] Family businesses are also often subject to preferential tax treatment. While this is often considered justified due to the importance of family businesses for the economy, one might argue that exempting family businesses from inheritance taxation creates unintended incentives, both for the original business owner (by creating an incentive to continue the business, where they would otherwise choose not to) and for heirs, as they can reduce effort among recipients.[99] In most countries a similar approach is applied to gift taxes.

Figure 2.2: Overview of inheritance taxes by Member State[100]

Source: Ernst & Young (2014) and desk research
Note: Member States in turquoise apply inheritance taxes, Member States in light blue do not.

[98] 11 out of 18 countries with inheritance tax fully exempt a surviving spouse, 7 out of 18 fully exempt children, while some others exempt specific amounts, or certain assets. (See Ernst & Young, 2014)
[99] Something which is often referred to as the Carnegie effect after the philanthropist Andrew Carnegie who observed that 'the parent who leaves his son enormous wealth generally deadens the talents and energies of the son, and tempts him to lead a less useful and less worthy life than he otherwise would'. (See Institute for Fiscal Studies, 2011)
[100] Austria, Latvia, and Portugal have a provision with a similar purpose in another tax.

2.4 Tax compliance

Improving tax compliance and thereby securing tax revenues for public policies to finance education, healthcare, infrastructure, defence etc. is essential for creating a fair society. Next to actively combat tax fraud, evasion and avoidance, a transparent and well-functioning tax administration is key to creating and preserving trust in authorities. This trust in the functioning of the system – essentially that other citizens are paying their taxes as well – is crucial for voluntary tax compliance.

Although it is by definition difficult to estimate how much money is lost to tax fraud, evasion and avoidance, this section presents indicators, which aim to provide an indication of the scale of the issue.

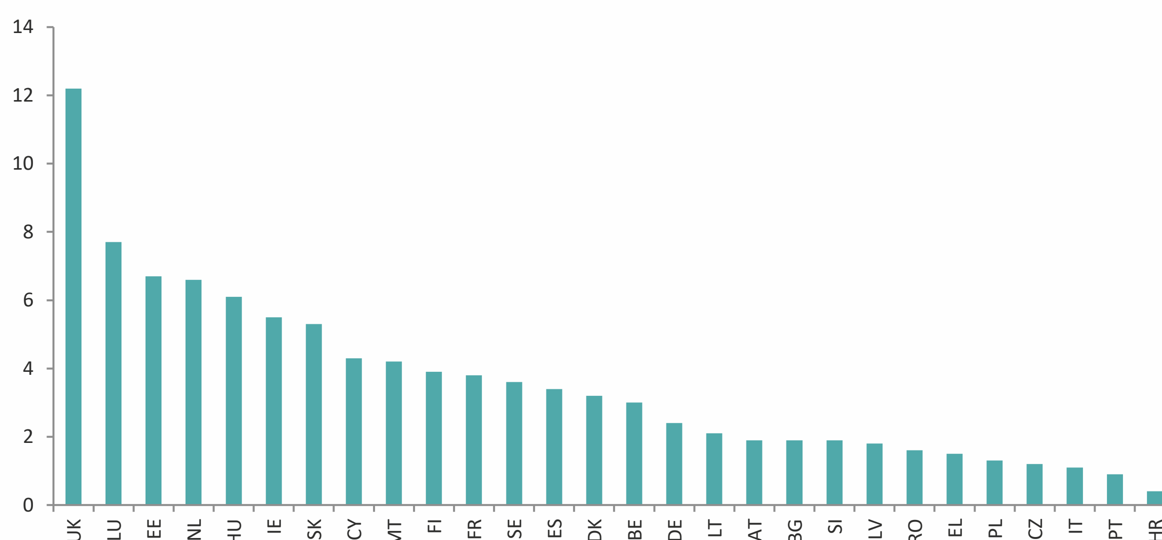
2.4.1 Estimates of tax avoidance

Tax avoidance consists in taxpayers reducing their tax liability through arrangements that may be legal but are in contradiction with the intent of the law. Tax avoidance can take various forms, for example through intra-group loans, the location of intangibles or the manipulation of transfer pricing.

While the existence of tax avoidance practices is demonstrated in many studies, it is hard to measure revenues lost to it given the complexity of the phenomenon and data limitation. A study commissioned by the European Parliament[101] finds that the revenue loss from profit shifting within the EU amounts to about **EUR 50-70 billion**,[102] equivalent to at least 17 % of corporate income tax (CIT) revenue in 2013.. Using a General Equilibrium Model approach, Álvarez-Martínez et al. (2018) find that tax avoidance in the EU-28 entails **EUR 36 billion** corporate tax revenues losses annually. Zucman et. al (2018) estimate that the EU-28 loses around **EUR 37 billion.**[103]

Other measures exist that do not attempt to measure the total revenue loss, but are nonetheless indicative of the problem of tax avoidance and of the route it takes. For example, rather than investing directly in a host country, multinational enterprises (MNEs) may funnel the investment through a third country to take advantage of treaty provisions not found between the host and the home country of the investment. This practice enables MNEs to minimize dividend repatriation costs. The graph below shows the attractiveness of Member States for MNEs that engage in treaty shopping strategies.

Graph 2.34: Attractiveness of treaty shopping: centrality index



Source: van't Riet and Lejour (2017)

Note: Centrality index refers to the GDP-weighted percentage of tax optimal repatriation routes which include the respective country. It is a theoretical calculation, taking into account the cost of dividend repatriation according to bilateral tax treaties signed between 108 countries.

[101] Dover et al., 2015

[102] The method captures profit shifting within the EU, excluding Spain, Hungary and Finland. It is based on the CIT-efficiency method that attributes all differences between the CIT/Gross Operating Surplus of individual MS with the EU average to profit shifting.

[103] Own computations based on T. Tørsløv, L. Wier and G. Zucman (2018), *The Missing Profits of Nations.*

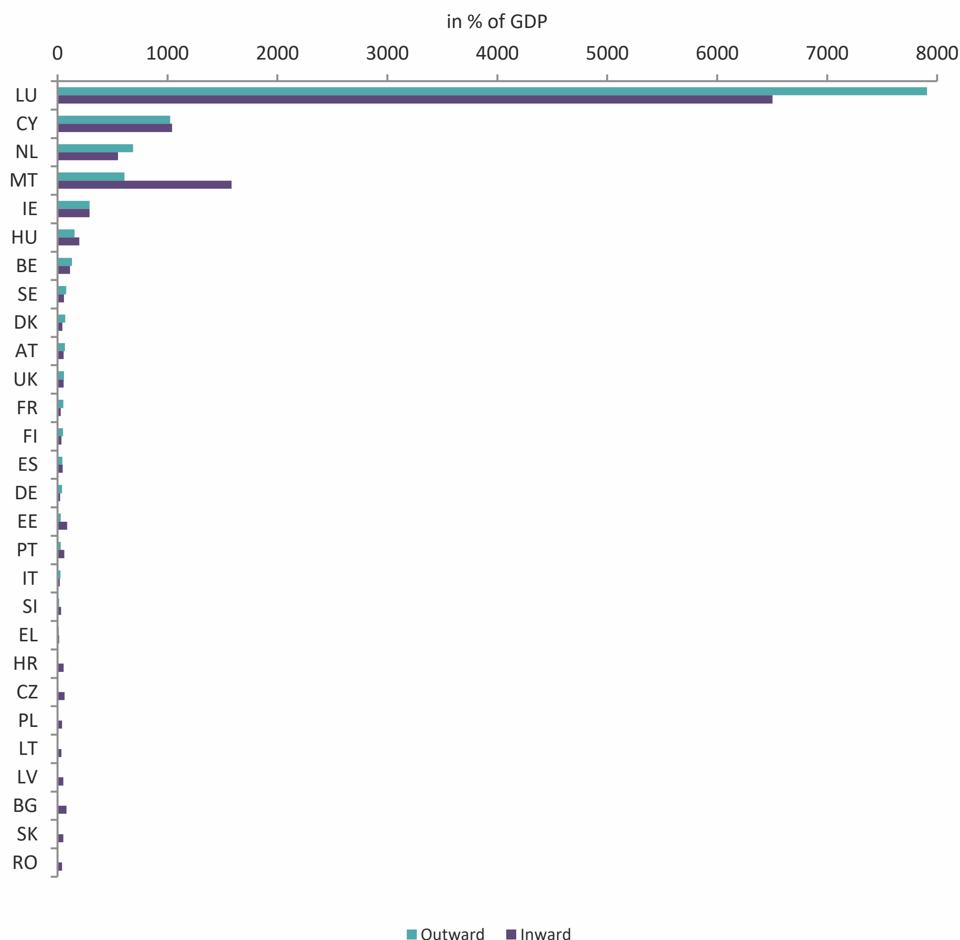
2.4.2 Financial activity

Countries whose tax rules are used in tax avoidance structures are generally characterized by (abnormally) high financial flows compared to their real economic activity. It is therefore relevant to look at information on a possible disconnection between financial and real economic activities, which might be an indication of tax avoidance.

In that respect, it is useful to look at foreign direct investments (FDI) as they capture the investments made cross border between related companies. The below graphs therefore contrast FDI data with the GDP of the country.

It should be stressed that such indicators do not in themselves suffice to draw final conclusions whether a country is being used for tax avoidance purposes. Other factors influence the ratios (for example smaller countries tend to have higher ratios of FDI to GDP). However they provide useful indications as to whether the issue of aggressive tax planning should be further investigated for a given country.

Graph 2.35: FDI positions, 2016

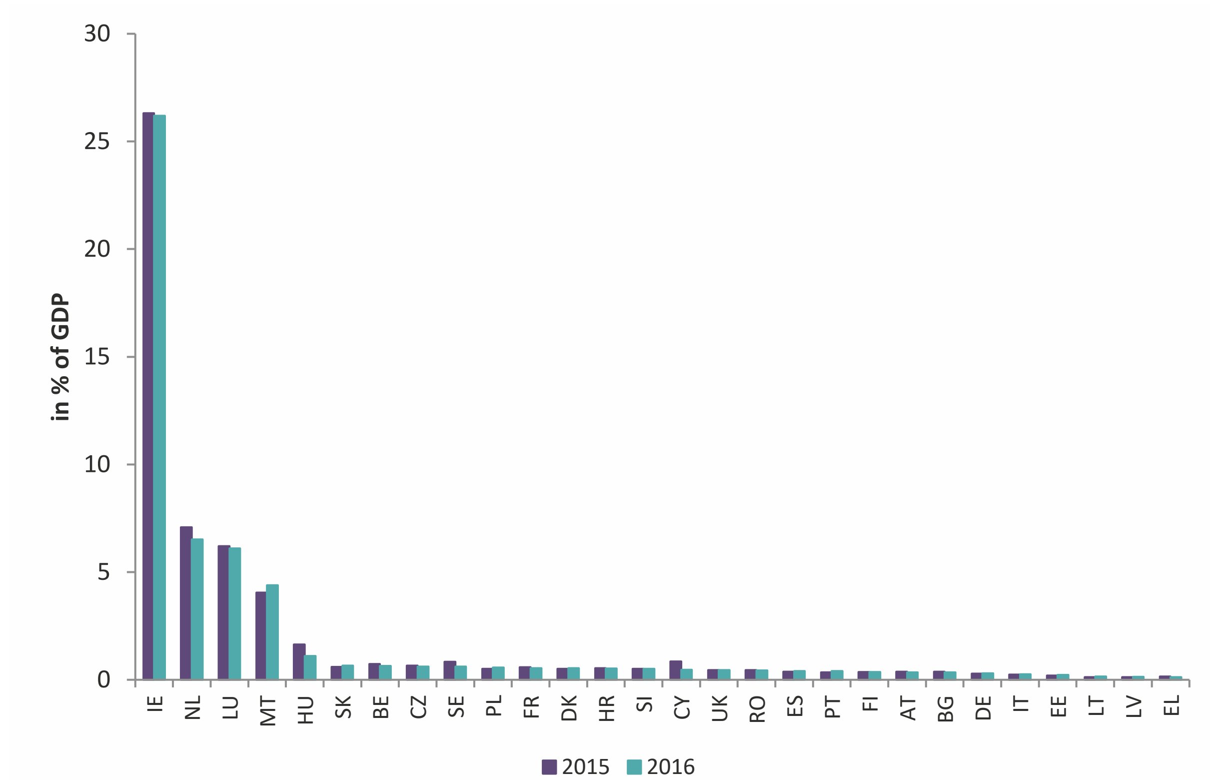


Source: Commission services based on Eurostat, bop_fdi6_pos and nama_10_gdp

Notes: (1) Foreign direct investment is the category of international investment in which an entity resident in one country (the direct investor) acquires a lasting interest in an enterprise resident in another country (the direct investment enterprise) including through Special-Purpose Entity (SPE), a legal entity created to fulfil narrow, specific or temporary objectives. A direct investment enterprise is one in which a direct investor owns 10 % or more of the ordinary shares or voting rights (or the equivalent for an unincorporated enterprise). (2) Inward FDI or Direct investment in the reporting economy (DIRE) denotes investment by foreigners in enterprises resident in the reporting economy. Outward FDI or Direct Investment Abroad (DIA) accounts for investment by resident entities in affiliated enterprises abroad. (3) FDI stocks (or positions) denote the value of the investment at the end of the period.

Some tax avoidance strategies play on the location of intangible assets. A high share of royalty payments relative to GDP might therefore be indicative of loopholes in tax legislation allowing for tax avoidance. Again, such an indicator does not in itself suffice to draw final conclusions whether a country is being used for tax avoidance purposes.

Graph 2.36: Charges paid for the use of intellectual property, 2015-2016



Source: Commission services based on Eurostat, 2016, bop_its6_det. and nama_10_gdp

2.4.3 Overview of relevant tax rules

Multinationals that engage in aggressive tax planning (ATP) reduce their tax liability by taking advantage of the technicalities of a tax system or by playing on mismatches between two or more tax systems. ATP can result in double deductions (e.g. the same loss is deducted both in the state of source and in the state of residence) and double non-taxation (e.g. income which is not taxed in the source state is exempt in the state of residence). It is therefore essential to look at Member States' tax rules in order to assess whether they could potentially be used in aggressive tax planning schemes.

A study by Ramboll Management Consulting and Corit Advisory (2015) categorises tax rules and practices depending on their role in ATP structures. Firstly, there are rules that can prompt ATP structures (i.e. these tax rules are the main source of the tax benefit offered by an ATP structure). Secondly, there are rules that do not prompt ATP structures by themselves but are necessary for an ATP structure to achieve its tax benefits. Thirdly, there are rules that can counter ATP structures (i.e. anti-abuse rules).

The entry into force of the Anti-Tax Avoidance Directive (ATAD)[104] as from January 2019 will provide all Member States with a set of robust anti-abuse rules, including interest limitation rules, which aim at discouraging artificial debt arrangements designed to minimise taxes, and controlled foreign companies (CFC) rules, which aim at deterring profit shifting to a low/no tax jurisdictions.

The absence of withholding taxes generally aims at preventing double taxation. For example, the elimination of withholding taxes on dividends within a group of companies is a key principle underpinning the EU Parent/Subsidiary Directive[105]. However, it may also facilitate ATP under certain circumstances. In particular payments to third countries may escape tax altogether, if there are not subject to tax in the recipient jurisdiction. The existence of withholding taxes prevents shifting profits tax-free, and thereby discourages or impedes aggressive tax planning.

The table below shows which countries apply a withholding tax (exceeding 0 %) on interest, dividends or royalties flowing to third country jurisdictions.

Table 2.4: Withholding taxes in EU Member States towards third country jurisdictions, 2018

	HU	MT	CY	EE	LU	NL	IE	SK	UK	AT	DE	FI	SE	BE	BG	CZ	DK	EL	ES	FR	HR	IT	LT	LV	PL	PT	RO	SI
Royalties	×	×	✓	✓	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Interests	×	×	×	×	×	×	✓	✓	✓	×	×	×	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dividends	×	×	×	×	✓	✓	×	✓	×	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: ZEW (2016b) and desk research by Commission services

Notes: (1) The above table focuses on the domestic withholding tax (WHT) rates, i.e. the rates that are specified in national corporate tax law. It does therefore not reflect the WHT rates specified in double tax treaties. (2) A cross means that the Member State does not apply a withholding tax (exceeding 0 %). (3) The Dutch government has announced its intention as of 2020, to abolish withholding tax on dividends (with the exception of low tax jurisdictions and abuse situations) and introduce withholding taxes towards low-tax jurisdictions on royalties and interests in 2021. (4) Withholding tax on royalty in IE are only on patent and with exemptions in certain cases.

[104] Council Directive (EU) 2016/1164 of 12 July 2016.

[105] Council Directive 2011/96/EU of 30 November 2011 amended by Council Directive 2014/86/EU of 8 July 2014.

2.4.4 Estimates of tax fraud and evasion

By definition, it is very complex to evaluate the extent of tax fraud and evasion. The non-observed economy (NOE) provide for an indirect indication of tax evasion, although it is broader (e.g. encompassing strictly illegal activities or other informal activities that are not subject to taxation). The non-observed economy includes underground, informal and illegal activities as well as other activities that have been omitted from data collection due to deficiencies in the data collection program. While it is by no means the only explanation, one of the reasons why economic agents decide to perform economic activities underground or informally is to evade taxes.

All EU statistical offices take into account the NOE when calculating national account statistics. The value of the NOE therefore measures economic activities, which may not be captured in the basic data sources used for compiling national accounts. Various statistical methods or adjustments are used to overcome the gaps in national accounts information that the non-observed economy creates. However, not all EU statistical offices disclose data on those adjustments.

Table 2.5: Value of the non-observed economy (NOE) as % GDP, reference years as specified (latest year available)

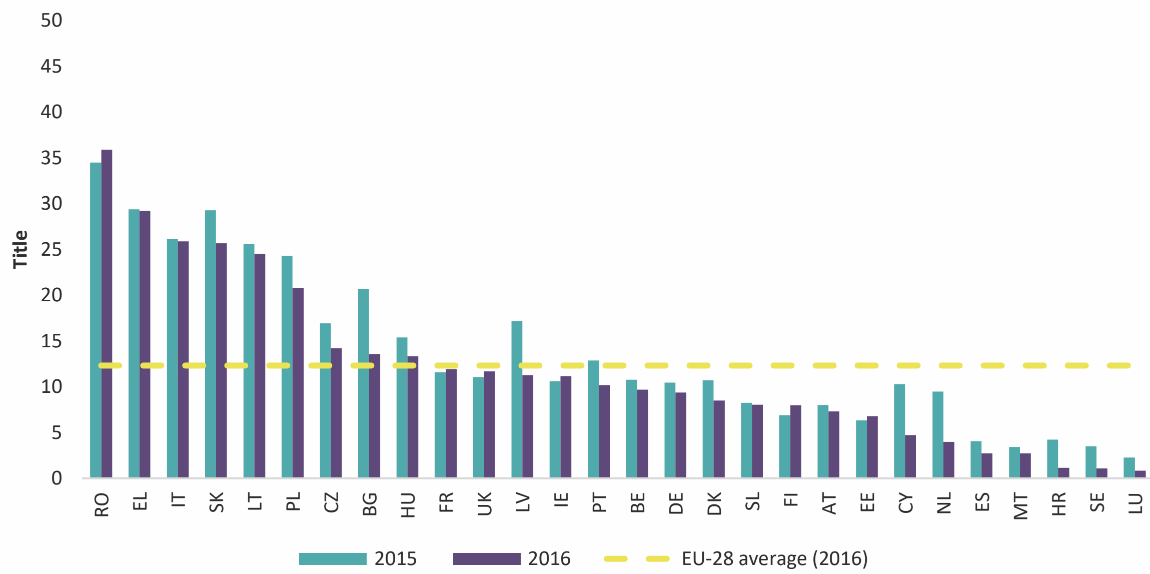
Country	NOE adjustments (% GDP)	Reference year	Country	NOE adjustments (% GDP)	Reference year
BE	4.6	2009	**LT**	18.9	2002
BG	13.4	2011	**LU**	N/A	-
CZ	8.1	2009	**HU**	10.9	2009
DK	N/A	-	**MT**	N/A	-
DE	N/A	-	**NL**	2.3	2007
EE	9.6	2002	**AT**	7.5	2008
IE	4	1998	**PL**	15.4	2009
EL	N/A	-	**PT**	N/A	-
ES	11.2	2000	**RO**	21.5	2010
FR	6.7	2008	**SI**	10.2	2007
HR	10.1	2002	**SK**	15.6	2009
IT	17.5	2008	**FI**	N/A	-
CY	N/A	-	**SE**	3.0	2009
LV	13.6	2000	**UK**	2.3	2005

Source: OECD (2012) and UN (2008), except for Bulgaria: national statistical institute; and for Romania: national statistical institute, quoted in the annual report of the Romanian Fiscal Council.

Note: The differences in methodologies used mean that the data for different Member States are not comparable. This incomparability is due to the different sources and methods used in the countries for estimating data for national accounts components; additionally, in these sources and methods some types of non-exhaustiveness are usually covered implicitly and, therefore, the scope of the necessary explicit adjustments also differs between the countries.

Moving from the whole economy to specific taxes, there are several estimates of how much taxes should be collected but eventually are not. The VAT gap is the difference between the amount of VAT actually collected and the estimated amount of VAT that is theoretically collectable based on VAT rules. It measures the effectiveness of VAT compliance and enforcement measures in each Member State. It estimates revenue loss due to voluntary non-compliance i.e. fraud, evasion and avoidance, as well as due to bankruptcies, financial insolvencies and errors or miscalculations.

Graph 2.37: VAT gap as percentage of VAT theoretical liability, 2015-2016



Source: CASE et al. (2018).

The VAT gap is the only tax gap for which there are comparative estimates for all EU countries. However, several Member States estimate the gap for other taxes as well.

Box 2.6: Estimating the CIT gap: overview of existing methodologies[106]

There is a growing political interest to estimate corporate income tax (CIT) gaps. However, this is very complex, which is the reason why a project group was set up under the FISCALIS 2020 programme, bringing together experts from 16 Member States and from the Commission. The objective was to exchange and collect knowledge and experience, and analyse the existing methodologies to estimate CIT gaps. The results from this work have recently been published in the report "*The Concept of Tax Gaps, Report II: Corporate Income Tax Gap Estimation Methodologies*".

Tax gap estimation processes do not only provide information about the size of the tax gap, but also about the practices and reasons behind it. Therefore, tax gap estimations are useful to improve tax policy and tax administration. However, the report acknowledges that the estimation of the CIT gap is particularly challenging due to the complexity of the CIT systems. CIT systems have often numerous tax expenditures that make difficult to identify the benchmark level of the theoretical tax revenue, which should be collected. Furthermore, different methodologies may capture different elements of tax gaps such as tax fraud, evasion, avoidance, omissions, errors in interpretations or bankruptcies. The report finds that existing tax gap estimates often capture either tax evasion and omissions and errors, or tax avoidance, but not both. Given the methodological complexity and data limitation, the report underlines that the focus should be on the trend of the results rather than on the absolute values.

The two main approaches to estimating the tax gap – the top-down and bottom-up methods – have both advantages and disadvantages. The choice of the estimation method depends heavily on the availability of data, resources and purposes of the estimate. The top-down methods start from macroeconomic indicators or national accounts data to estimate the CIT gap, while the bottom-up methods start from data obtained from individual taxpayers and extrapolate them to a wider population. There are clear complementarities between both approaches.

Top-down methods are generally more easily replicable across years or countries, but are less precise and offer very little insight into the reasons behind non-compliance. Top-down estimates provide relatively comprehensive estimates of the tax gap.

Bottom-up methods often - but not always - rely on information that is only available to tax administrations (audit results). It has the advantage to help understand the reasons for non-compliance, and be more precise in its estimate of components of the tax gap. However, bottom-up estimates generally focus on one aspect of the tax gap and not the overall gap. Furthermore, it is likely that bottom-up methods underestimate the extent of non-compliance by focusing mostly on known dimension of tax compliance. Often, it does not cover tax avoidance.

According to a survey[107] of the EU Member States, carried out by the project group, about nine Member States have taken steps or already estimate CIT gap (Belgium, Bulgaria, Denmark, Greece, Italy, Romania, Slovakia, Finland and Sweden). Four additional Member States have responded that they are planning to undertake CIT gap estimates in the future (Czech Republic, Portugal, Latvia and Lithuania).

Among these nine countries, seven are or intend to use the bottom-up approach, either based on the data from random audits or risk based audits. Three Member States use top-down methods (Italy, Romania and Slovakia) with National Accounting Methods as a basis for the calculation (see Table below). Slovakia has applied a top-down approach developed by the IMF (RA-GAP).

[106] Fiscalis Tax Gap Project Group (2018)

[107] The replies on the survey questionnaire were received from 25 Member States (with no response received from France, Ireland and United Kingdom).

Table 2.6: Survey of CIT gap estimation practices in Member States

Member States	*In-house CIT gap estimates (planned, initiated or ongoing)*	*Method*	*Bottom-up method*	*Top-down method*	*Scope of gap: Evasion or avoidance*	*Scope of companies*	*Public*	*Periodicity (last update)*
BE	Initiated	Bottom-up	Risk-based audit		Evasion	Subset	No	Annual (planned)
BG	Yes	Bottom-up	Risk-based audit		Evasion - Avoidance	All	No	No fixed periodicity (2010)
CZ	Planned							
DK	Yes	Bottom-up	Risk-based and Random audits		Evasion	All	Yes	Triennial (2012)
EL	Yes	n.a.			Evasion - Avoidance	All	No	No fixed periodicity (n.a.)
IT	Yes	Bottom-up / Top-down	Risk-based audit	National Accounting	Evasion	All	Yes	Annual (2014)
LV	Planned							
LT	Planned							
NL	No (only SMEs)	Bottom-up	Random audit		n.a.	Subset	Yes	Annual (2014)
PT	Planned							
RO	Yes	Top-down		National Accounting	Evasion - Avoidance	All	No	Annual (2016)
SK	Yes	Top-down		National Accounting	Evasion	Subset	Yes	Annual (2014)
FI	Yes	Bottom-up	Random audit		Evasion	Subset	No	n.a. (2016)
SE	Yes	Bottom-up	Random audit		Evasion	Subset	No	Annual (2014)

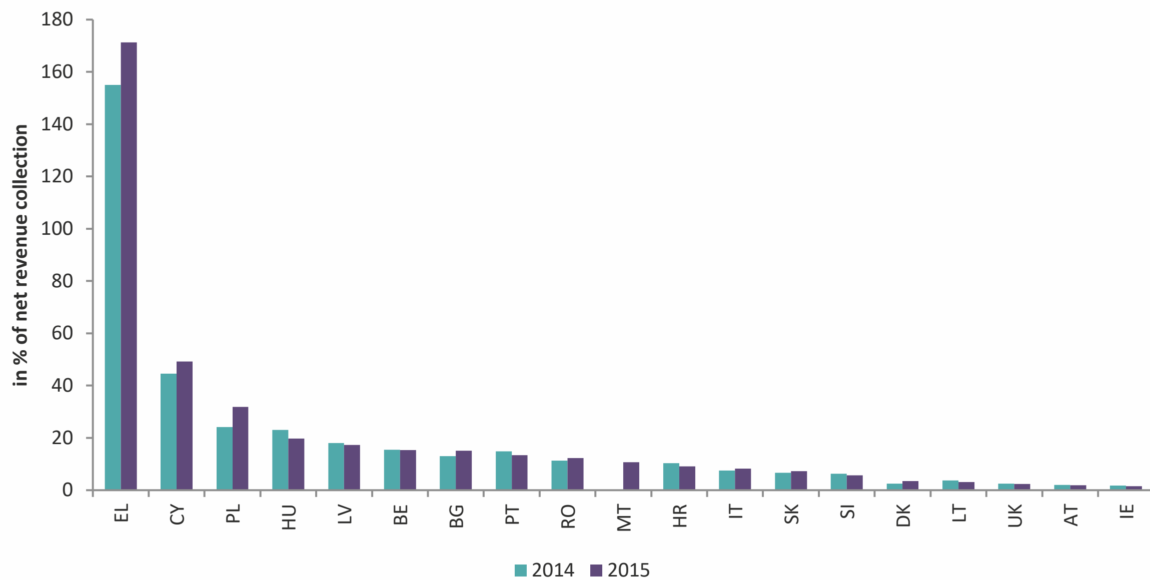
Source: Fiscalis Tax Gap Project Group, 2018

2.4.5 Tax debt as share of revenue collection

Not all taxes are paid on time. When this happens, taxes are in arrears and are defined as tax debt. Tax debtors are those taxpayers which fail to comply with payment deadlines. A high level of tax debt may be indicative of challenges with tax compliance in a broader sense than payment.

The graph below depicts the ratio of total year-end tax debt, excluding debt that is considered not collectable and the total net revenue in the years 2014 and 2015 respectively.

Graph 2.38: Total year-end tax debt (excluding debt considered not collectable) / total net revenue, 2014-2015



Source: OECD (2017a)

Notes: (1) No data available for CZ, DE, EE, ES, FR, LU, NL, FI, SE, no 2014 data for MT (2) Net revenue collection is calculated as total gross revenue collected by the tax administrations (including non-tax revenue) minus total revenue refunded collected by the tax administration per year

3 Tax reforms in the EU & policy options

Chapter 3.1 presents tax reforms announced or implemented by EU Member States between June 2017 and June 2018[108] in order to foster growth and fairness.[109] It complements the analysis presented in Chapter 2, by looking at the most recent developments that are not yet visible in the available data. The reforms outlined in the first section of this chapter are grouped along the four tax priorities presented in chapters 1 and 2. Tax reforms can have multiple, broad objectives and be relevant for different priorities. These reforms have been included in the subsection where they contributed most to the analysis. Chapter 3.2 covers direct and indirect taxation initiatives at EU level. Building on the analysis included in this survey, chapter 3.3 includes general policy recommendations and principles that every Member State could take into account in reforming its tax system to make it fairer and more growth-friendly.

3.1 Recent reforms in the Member States

3.1.1 Reforms affecting private investment

Several Member States have changed their corporate tax rates (see graph 1.4). Over the past five years, the average EU-28 corporate income tax rates fell from 23.2% to 21.9%. During this time-period, mostly Member States with traditionally high corporate tax rates that lowered their corporate income tax rate. In 2018, three EU Member States (Belgium, Estonia,[110] and Luxembourg) reduced their corporate income headline tax rates. Further cuts are announced or already scheduled in another five Member States (Greece, France, Netherlands, Sweden, and the United Kingdom). While Latvia has increased its corporate tax rate from 15% to 20% for distributed earnings, it simultaneously introduced a 0% tax rate for retained earnings. Portugal increased the state surtax from 7% to 9% for taxable income above EUR 35 million.

Efforts have continued to stimulate investment, including through simplified tax structures. Base broadening measures were taken to finance tax cuts (e.g. Belgium has lowered its corporate tax rate, while introducing a minimum tax base for companies with profits above € 1mln); restrictions in loss reliefs and anti-avoidance measures were also used as base broadening measures[111] (see section 3.1.4). As part of a broader CIT reform, Belgium also raised dividend exemption to 100% and abolished the minimum capital gains rate for large companies in 2018. A number of other Member States have introduced changes to their capital gains tax legislation. France has introduced a flat tax rate on capital income (interests, dividends, capital gains) and removed its '3% dividend tax'.

[108] This concerns the coverage of this chapter. In exceptional cases, recent announcements of tax reforms have been taken into consideration in chapter 2, in case they were relevant for a particular analysis.
[109] For an exhaustive list of tax reforms in EU Member States, see Annex B. For an analysis of reforms in previous years. see European Commission (2017d) and European Commission (2016)
[110] Estonia decreased its tax rate for regularly distributed profits from 20% to 14%.
[111] These last two measures do not primarily aim at stimulating investment.

The application of ACE schemes, which address the debt bias, continues growing. Malta has introduced an ACE scheme to address its debt bias. Belgium, Italy, Portugal, and Cyprus continue to apply ACE regimes. In 2018, Italy decreased the rate applied in its ACE scheme from 1.6 % to 1.5 % and Belgium replaced its ACE regime that was based on the stock of equity with an incremental system over a five-year average. The Belgian ACE has similar design features as the Allowance for Growth and Investment (AGI) included in the CCTB proposal. It also has specific anti-avoidance measures aimed at avoiding a cascading of the scheme's benefits. Denmark has recently announced that it will implement an ACE regime.

Member States have introduced measures to incentivise investment into young and innovative firms. During the crisis years, most countries reformed and expanded their R&D tax incentives in order to partly compensate cuts in direct R&D spending, which took place due to fiscal consolidation efforts. In consequence, tax reforms in this respect were less frequent in 2017-2018. In 2018, Lithuania has introduced additional tax measures to encourage R&D in 2018. These measures include a reduced corporate income tax rate for R&D of 5% (instead of 15%). Lithuania has also introduced a 1-year corporate income tax holiday for new companies. Denmark has introduced new tax rules for foreign researchers together with several other changes to its tax code including the implementation of an investment tax credit. Slovakia increased the value of its R&D super-deduction from 25% to 100%. Over half a dozen Member States have introduced special corporate and personal income tax provisions for SMEs.

There have been reforms to embrace digitalization and engaging with the collaborative economy. On the one hand, Member States increasingly rely on digital integration to smoothen and facilitate tax compliance. While in past years this development had started by offering more digital services, we now see a trend towards making their usage compulsory. For instance, Bulgaria passed a bill that requires the electronic submission of corporate tax returns from 2018 onwards. Cyprus introduced the compulsory electronic submission of VAT returns in 2017. On the other hand, Member States are increasingly devoting their attention to the tax aspects of the collaborative or sharing economy. Especially France, Estonia and the UK are taking a leading role in this regard by developing innovative solutions in collaboration with businesses.

3.1.2 Reforms affecting employment

Overall, developments in personal income taxation (PIT) were in the direction of lower rates, although major reforms were limited in number. The Netherlands announced a PIT reform to be implemented over the course of 2019 and 2020. This includes a reduction in the number of tax brackets from four to two, alongside an increase in the general tax credit and the earned income tax credit. The PIT reform is expected to reduce the overall tax burden on labour. Increases in other taxes were also announced to mitigate the revenue loss (see below). In Romania, the flat PIT rate was reduced from 16% to 10% from 2018, alongside major changes to the design of social security contributions (see below). Beside increases to the differentiated tax-free allowance (see below), Latvia reduced the standard rate of PIT, while introducing a higher degree of progressivity into the system through higher tax rates for earners on higher salaries.

Changes in social security contributions (SSC) rates occurred in both directions, including an average 3.5% increase in both employer and employee contributions in Bulgaria and continued reductions in employers' payroll tax – with a further conditional decreases if employers increase wages – in Hungary. In addition, Romania implemented a major restructuring of social contributions, by shifting to employees the contributions that had previously been paid by employers, while slightly reducing the level of contributions overall. Under the new system, employees will pay 35%

of their gross wage as social contributions, while employers will pay a 2.25% contribution for work insurance.

Some labour tax or social contribution reductions were targeted at lower income earners or particular groups. Lithuania and Latvia further increased the maximum differentiated tax-free allowance and Estonia introduced such an allowance (replacing the previous refund scheme, but significantly increasing the generosity). Portugal introduced PIT reforms intended to reduce the tax burden on low to middle income earners; including an increase in the number of tax brackets. A number of Member States introduced measures targeted at specific groups, including reducing PIT for older people (to match the treatment of younger workers) in Sweden, a new social insurance contribution allowance on pensioners' income in Slovakia and targeted exemptions from employer social contributions in Italy to promote the hiring of young people or employees in particular regions on permanent contracts. In the area of second earners, the Netherlands legislated to phase out the transferability to the spouse of the income-dependent combination tax credit and the labour tax credit, while in the other direction, Latvia introduced an allowance for a non-employed spouse.

The following paragraphs look at reforms of alternative tax bases, such as consumption, environmental and property taxes. Those reforms are not necessarily part of a tax shift.

Changes to consumption taxes were generally relatively minor. No Member States made changes to their standard VAT rate, continuing the relatively stable trend in recent years. However, in the Netherlands, a planned increase in the VAT reduced rate from 6% to 9% from 2019 was announced, as part of the comprehensive tax reform (see above). Several Member States introduced new reduced rates, while a smaller number removed certain existing ones. In terms of health-related taxes, a number of Member States raised excise duties on tobacco or alcohol, while Ireland implemented a tax on sugar sweetened drinks, and Belgium increased the tax on sugar sweetened and artificially sweetened drinks. Over recent years several Member States have introduced measures related to the taxation of novel tobacco products, such as e-cigarettes.

A number of Member States introduced tax changes to support environmental sustainability. These included plans in the Netherlands for a minimum national CO2 tax for electricity generation by emission trading companies, as well as plans to increase the landfill and incineration tax and later broaden the base to include other forms of waste disposal, to increase the tax rate on natural gas and lower it on electricity to better align with the CO2 emissions, and to tax airline tickets. Sweden also made a number of changes to environmental taxes, including implementing a new tax on air travel. In France excise duties on diesel will increase by EUR 0.026 per litre per year from 2018 to 2021, closing the taxation gap between diesel and petrol by 2021.

Changes in recurrent property taxation showed no clear trend. Denmark introduced measures to realign property taxes with property values. Lithuania introduced progressive rates into its property tax system, while France is gradually eliminating the housing tax for 80% of households (see section 3.1.3).

While average employment levels are improving in the EU, there remains scope in some countries to use tax reforms to further boost employment, in particular for certain groups. Given the increasing employment rate, but lagging progress in total number of hours worked, measures that focus on incentives to move from part-time to full-time work, including for second earners, could be considered. For countries looking at labour tax cuts to support job creation and enhance work incentives, there remains a need to identify new revenue sources. The right financing depends on the overall design of the tax system.

3.1.3 Reforms affecting income inequality and social mobility

Reforms aimed at enhancing social fairness were rather limited in 2017-18.

Reforms impacting the progressivity of tax systems have gone both ways. It is important to recall that the starting point of Member States' tax systems progressivity differ significantly and therefore this should be taken into account in the assessment of reforms with progressivity effects (see section 2.3.1). For example, the Baltic countries – featuring flat income taxes and overall low progressivity tax systems – legislated measures that will introduce some progressivity in their personal income tax systems. These are typically designed in the form of allowances. In addition, Lithuania introduced progressive taxation for expensive non-commercial real estate of natural persons [for immovable property], which could also enhance the overall progressivity of the tax system.

Conversely, Romania, Italy, the Netherlands and France legislated tax policies that move in the opposite direction. While this is a move away from progressivity, it has to be assessed against the fact that Netherlands, France and Italy, currently have relatively progressive tax mix. For Romania, however, the situation is different as it had a tax system with only few progressive elements. Romania lowered further down its flat tax rate to 10%., accompanied by a shift of social contributions from employers to employees. Netherlands legislated a PIT reform, reducing its income brackets from four to two, which will be implemented gradually over the coming years. In 2021 the rate of the first bracket will be 37.05 % and the top tax rate of 49.5% (for income above EUR 68 600). Italy now taxes dividends and capital gains for individual share at a substitute rate of 26% instead of the ordinary personal income tax rate. More recently, it also announced its intention to move from a progressive system to a flat tax rate for personal income. Last but not least, France run major reforms of capital taxation with clear distributive implications. With the stated objective to foster productive investment and attract capital, the wealth tax (*Impôt sur la Fortune*) has been narrowed down to a tax on real estate wealth (*Impôt sur la Fortune Immobilière*). In addition, sources of capital income (except real estate income) are now taxed at a flat rate of 30% (*Prélèvement forfaitaire unique*).[112] Although the flat tax will bring neutrality, transparency and simplicity and reduce distortions between savings instrument, the reform will mainly benefit the highest decile of the income distribution.[113]

As in previous years, few changes took place in the area of inheritance and gift taxation with a continued tendency to extend exemptions. In Luxembourg all married persons or persons engaged in a partnership lasting for at least three years before death of one of the partner are exempt from inheritance taxes since 2018.

Lack of social fairness continues to be an important issue in some Member States, while there is some room for manoeuvre to improve the overall design of the tax system. Depending on the type of social issue – disposable income inequality, wealth inequality, lack of intergenerational mobility and/or equality of opportunity – more and targeted efforts to consider the progressivity of the tax system as a whole could help to fairly spread the tax burden across taxpayers and to improve social fairness.

[112] Previously, labour and capital income were taxed under a single progressive system (with specific regimes for e.g. income from investment in innovation)

[113] European Commission, 2018c.

The ongoing reform of property taxation will partly mitigate the adverse distributive consequences of the wealth and capital income tax reforms.

3.1.4 Reforms affecting tax fraud, evasion and avoidance

The fight against tax fraud, evasion and avoidance has remained an important area of reform at national level in 2017-2018, complementing EU-level action. Measures planned or adopted have spanned from strengthening the legal framework to facilitating and encouraging voluntary compliance. Enhancing access to information to tax administrations has been another area of reform.

In 2017-18, several reforms have aimed to fight tax fraud and evasion related to undeclared work. Bulgaria has introduced an amendment to the Law on Public Procurement to prevent the selection of participants (including subcontractors) that had received a penalty within the previous three-years for using undeclared work. Romania introduced the payment of social security contributions for part-time employees at the rate of the gross minimum wage to discourage the use of under-declared work. Romania also tightened its sanctions regime and increased the amount of the contravention fines for undeclared work. Cyprus introduced new legislation on undeclared work, which introduced fines on employers starting at €500 for each undeclared worker, which will be backdated on the presumption they have been working for six months, bringing the total to €3,500. Also the law provides new powers to inspectors and improves the detection of undeclared work and processes by requiring pro-rata registration of employees before recruitment.

Member States took measures to promote voluntary payment of taxes by raising awareness and simplifying the process of tax declaration and payment. Bulgaria organises a communication campaign "*Wage in an envelope*" informing the risk groups about the negative consequences (e.g. in terms of future pension income) of paying social security contributions on amounts lower than due. Also Bulgaria carries out an educational programme "*Get to Know the Taxes*" to increase tax and fiscal awareness among the young generation. The Czech Republic has introduced a virtual tax office, offering services such as optional pre-filled tax forms, containing basic information about the taxpayer, payroll information from the employer, and third-party (banks and/or pension funds) data important for the final establishment of the tax liability. The portal also aims to eliminate reporting duplication and errors, to target and coordinate audits, and to forge links with other systems, e.g. e-invoicing. Hungary's tax authority has prepared draft personal income tax returns for employed individuals since 2017, for primary agricultural producers and for natural persons with VAT obligations from 2018.

In order to enhance VAT compliance, a number of measures were geared at providing tax authorities with a better overview of transactions. The Czech Republic, which had introduced an electronic central registration of sales for hospitality, accommodation, retail, and wholesale, plans to extend it for the remaining types of businesses by 2019. Hungary has introduced the online cash registers system and the electronic public road transport control system (EKAER). Hungary has also increased the scope of mandatory online turnover data reporting: as of 1 July 2018 all vending machines have to be equipped with a control unit forwarding online data to the tax administration. Hungary introduced the online invoice data provision system, which provides real-time turnover data to the tax administration. This is mandatory for businesses in case of invoices for which VAT exceeds HUF 100,000. Romania is also introducing an obligation to use electronic fiscal devices that can be connected to the national tax authority system. The gradual introduction of this obligation starts from 1 June 2018 depending on the category of economic operator.

Member States continued efforts to curtail tax avoidance by addressing the issue of the modification of double tax treaties to implement BEPS actions. All EU Member States are

part of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) developed by the OECD which develops common agreed standards and review/monitor the implementation of the BEPS Package. By end of June 2018, all EU Member States had signed the *Multilateral Convention to Implement Tax Treaty Related Measures to prevent BEPS ("Multilateral Instrument" or "MLI"). The MLI* aims at implementing a series of measures to amend existing bilateral tax treaties and thereby reduce tax avoidance by multinational enterprises. In particular, the MLI, which entered into force in July 2018, allows for the implementation of agreed minimum standards to counter treaty abuse and to improve dispute resolution mechanisms. However, it should be noted that countries have the possibility to put some reservation on certain articles, which reduces the changes brought by this instrument.

Some Member States introduced other types of measures to address tax avoidance. Belgium has reviewed its anti-abuse rule concerning its notional interest deduction regime. The Netherlands have announced that the rules for the trust sector will be tightened and the powers of the supervisory authority for the trust sector will be extended. They plan to put in place withholding taxes on royalties and interests in case of abuse or when payments are made to low tax jurisdictions by 2021. Cyprus plans a review of its corporate tax regimes including its corporate residence tax rules. The United Kingdom, introduced penalties for promoters of tax avoidance arrangements. Furthermore, the United Kingdom has initiated a consultation on a new legislation, which should take effect in April 2019, to tackle tax avoidance schemes that allow moving profits outside the charge of the United Kingdom tax, through fragmentation of profits notably by means of offshore trusts and companies.

However, despite reforms and progress achieved, tax abuse continues to pose a major challenge for Europe. For example, according to the latest available figures for the VAT gap, tens of billions of euro are lost each year to non-compliance.[114] Coordination across Member States is of importance in order to effectively tackle the issue and address spillover effects.

Reforms at national level have to be seen in the broader context of the EU and international agreements. A number of reforms have been adopted or proposed at EU level to fight tax abuse, as discussed in the following section.

[114] Non-compliance includes not only fraud and evasion but also avoidance, bankruptcies, financial insolvencies as well as miscalculations.

3.2 The EU's Taxation Policy Agenda

The EU's tax policies aim at creating a more efficient and fairer tax system. While personal and company income taxes are mainly the responsibility of Member States, coordinated action at EU level is increasingly necessary to tackle common challenges. In many cases, coordinated solutions can ensure the competitiveness and sustainability of the EU tax base. This section presents the major direct and indirect tax initiatives proposed by the European Commission since 2015 to create a more efficient and fairer tax system.

3.2.1. Direct Taxation

3.2.1.1. CCCTB

In June 2015, the Commission adopted an Action Plan for fair and efficient corporate taxation in the EU.[115] The Action Plan sets to reform the corporate tax framework in the EU, in order to tackle tax abuse, ensure sustainable revenues and support a better business environment in the Single Market. One of the key areas for action identified in the Action Plan was the relaunch of the Common Consolidated Corporate Tax Base (CCCTB).

In October 2016, the Commission adopted proposals for a modern, fair, growth-friendly and competitive common corporate tax framework for the EU. The CCCTB is a single set of rules to calculate companies' taxable profits in the EU. The CCCTB is planned to be implemented in two steps. In the first step, a Common Corporate Tax Base (CCTB) would be established. Consolidation (CCCTB) would be put in place swiftly afterwards. With the CCCTB, cross-border companies will only have to comply with one, single EU system for computing their taxable income, rather than many different national rulebooks. The CCCTB proposal includes an R&D tax incentive and a measure to address the debt bias. Companies can file one tax return for all of their EU activities, and offset losses in one Member State against profits in another. Corporate tax rates are not covered by the CCCTB, they will remain an area of national sovereignty. The consolidated taxable profits will be shared between the Member States in which the group is active, using an apportionment formula. The consolidated tax base would be apportioned on the basis of a fixed formula comprising three equally weighted factors: sales (by destination), labour and assets. Each Member State would apply its own tax rate to the share of the tax base apportioned through the formula. Only the calculation and apportionment of the tax base would be harmonised. Member States would retain the power to set their own tax rates. Member States are currently discussing the Commission proposal in Council.

3.2.1.2 Dispute Resolution Mechanism

The Directive on Dispute Resolution Mechanisms (DRM) implements the EU approach to resolving disputes primarily arising from double tax treaties. This instrument, which accommodates procedures for Mutual Agreement Procedure and Arbitration (including Alternative Dispute Resolution) builds on existing mechanisms for dispute resolution in taxation and also brings an important change: it provides guarantees to the taxpayer that ensure the resolution of the dispute. Specifically, the taxpayer is granted the right to refer to the national courts in order to enforce its rights under the DRM when Member States do not take the required action within the prescribed time limits. This also includes enforcing the implementation of the final decision by the national competent authorities. Differently, the procedures for dispute resolution which have applied

[115] See: https://ec.europa.eu/taxation_customs/business/company-tax/action-plan-corporate-taxation_en

up to now (i.e. tax treaties and the Arbitration Convention) have demonstrated low effectiveness in enforcing compliance with deadlines and the implementation of the final decision by the national authorities. The DRM was adopted in October 2017 and will start applying in July 2019. It will cover disputes that will arise after that date but which concern income or capital earned as of 1st January 2018.

3.2.1.3 Curbing Aggressive Tax Planning and Increasing Transparency

The fight against tax evasion, avoidance and aggressive tax planning is a priority of the Commission as is reflected in the key initiatives that have been proposed by the Commission and adopted by the Council, such as the two Anti-Tax Avoidance Directives and the Directives to boost tax transparency. The Anti-Tax Avoidance Directive (ATAD),[116] which sets out legally-binding anti-abuse measures, was adopted in June 2016 and will enter into force in January 2019.[117] Minimum standards are defined concerning: (1) controlled foreign company rule to deter profit shifting to a low/no tax countries; (2) hybrid mismatches rule to prevent double non-taxation; (3) exit taxation rule to prevent companies from avoiding tax when relocating assets; (4) interest limitation rule to discourage artificial debt arrangements designed to minimize taxes; and (5) general anti-abuse rule to counter aggressive tax planning when other rules do not apply. The Commission complemented the Directive with measures to tackle tax loopholes ('hybrid mismatches') in relation to third countries (ATAD 2),[118] which will enter into force in January 2020.

A number of amendments were made in recent years to the Directive on Administrative Cooperation (DAC)[119] to help counteract corporate tax avoidance and tax evasion by increasing tax transparency. In December 2014 the Council adopted a Directive on automatic exchange of financial account information (DAC2), which entered into force in 2015, with first financial account data available for the year 2016 since October 2017. In December 2015 the Council adopted a directive[120] on automatic exchange of information on tax rulings (DAC3). All advance cross-border tax rulings and advance pricing arrangements are subject to an automatic exchange of information since July 2017. In May 2016 the Council adopted a directive[121] on country-by-country reporting between Member States' tax authorities on key tax-related information on multinational companies operating in the EU (DAC4). The first exchanges of information took place on 30 June 2018. In December 2016 the Council adopted a directive[122] on access to anti-money laundering information by tax authorities, which ensures tax authorities have access to beneficial ownership information collected (DAC5), which entered into force in 2018.

In 2015 and 2016, the EU signed historic international transparency agreements with Switzerland, Andorra, Liechtenstein, San Marino and Monaco. These agreements will significantly improve the fight against tax evasion. Under the agreements, both the EU and the other countries will automatically exchange information on the financial accounts of each other's residents from 2018 onward. This spells an end to bank secrecy for EU residents and will prevent tax evaders from hiding undeclared income in bank accounts in these non-EU countries. The automatic exchange of information is widely recognised as one of the most effective instruments

[116] Directive 2016/1164/EU
[117] It is also planned that some provisions of the ATAD will enter into force later.
[118] Directive 2017/952/EU
[119] Directive 2011/16/EU
[120] Directive 2015/2376/EU
[121] Directive 2016/881/EU
[122] Directive 2016/2258/EU

for fighting tax evasion. It provides tax authorities with essential information about their residents' foreign income, so that they can assess and collect the taxes that are due on them. These new agreements are fully in line with the strengthened transparency requirements that Member States agreed amongst themselves.

A new Directive on transparency rules for intermediaries completes this framework to make tax transparency a strong lever to address aggressive tax planning. On 25 May 2018, the Council adopted new transparency rules for intermediaries[123] - such as tax advisers, accountants, banks and lawyers - that design or sell potentially harmful tax schemes (DAC6). Cross-border tax planning schemes can bear certain characteristics – or 'hallmarks' - that indicate a risk of tax avoidance or evasion. Such hallmarks can include the use of cross-border losses to reduce tax liability, the use of special preferential tax regimes, or arrangements through countries that do not meet international good governance standards. Intermediaries that provide schemes bearing any one of these key hallmarks will now have to report these schemes to the tax authorities before they are used. The new reporting requirements will enter into force on 1 July 2020, with EU Member States obliged to exchange information every 3 months after that. The first exchange will take place by 31st October 2020.

However, some directives proposed by the Commission are still discussed in Council and could be instrumental to decrease aggressive tax planning, such as the previously mentioned CCCTB and the public country-by-country reporting (CbCR). The public CbCR, proposed in April 2016, by requiring large multinational companies to publish country-by-country information on where they make their profits and where they pay tax, will inform the public at large about how much taxes are paid in their jurisdiction and how much profits, if any, are located in non-cooperative tax jurisdictions.

The EU is also engaged in efforts to curb tax avoidance and evasion at global level. One of the tools set out by the Commission in its 2016 External Strategy for Effective Taxation is the EU list of non-cooperative jurisdictions. In September 2016, the Commission presented a scoreboard from which the Member States selected jurisdictions to be screened in detail. In November 2016, Member States agreed on a set of criteria for screening and listing third country jurisdictions: tax transparency, fair taxation and a commitment to Base Erosion and Profit Shifting (BEPS) implementation. The first EU list of non-cooperative tax jurisdictions was endorsed by EU Finance Ministers in December 2017 after a dialogue with the jurisdictions concerned. The Council also took note of high-level commitments made by many jurisdictions. The list is being regularly updated. Listed countries face a series of defensive measures, which are applied at Member States' and EU level. Revisions have been made in particular to legislation related to EU funding, so that EU money cannot be channelled through entities in listed countries or used for tax avoidance purposes. The EU is monitoring the commitments that a large number of countries have agreed to implement by the end of 2018 or 2019.

In parallel, the Code of Conduct (CoC) Group on Business Taxation has been reviewing the patent box regimes of the Member States to ensure that these regimes are not harmful. Member States' patent boxes have been assessed against the OECD nexus approach which ensures a stronger link between the intellectual property that can benefit from the regime and the R&D that created it. Most of the patent box regimes have been amended or repealed since 2017, and subsequently judged non-harmful by the CoC Group.

[123] Directive 2018/822/EU

3.2.1.4 Simplifying Withholding Tax Procedures in Europe

In 2017, the Commission developed a non-binding code of conduct for Member States on withholding tax procedures. The code of conduct, an initiative of the Commission originally put forward in the 2015 Capital Markets Union action plan, was published online in December 2017.

The code gives a snapshot of the problems faced by cross-border investors and explains how more efficient tax procedures can be put in place. The Code outlines a range of practical ways for Member States to address key issues including:

- Measures to help smaller investors for whom the rules on the refund of withholding tax are overly complex;
- The creation of user-friendly digital forms to apply for withholding tax relief in the case of overpayment;
- A reliable and effective timeframe for tax authorities for the granting of withholding tax relief;
- A single point of contact in Member State tax administrations to deal with questions from investors on withholding tax.

As next steps, the Commission will monitor if and to what extent Member States are following the code, with the aim of achieving a comprehensive EU wide review of developments in line with it.

Box 3.1: Taxation of the Digital Economy

The emergence of digitalisation rapidly transforms modern economies. On the user side of this development, both consumers and firms benefit from increased availability of market platforms through the internet and tailored applications. On the providing side, business models rely on user data and exploit network effects in order to create profits and surplus value for consumers.

Digitalisation drives economic change in Europe on various levels. It enables young and dynamic firms to launch innovative solutions more easily as the new technology facilitates market access and connections to potential clients. At the same time, few large digital businesses replace traditional, less innovative firms across sectors and capture increasing market shares, facilitated by a "winner-takes-it-all"-nature of the new economy. Moreover, these new digital companies operate mainly across country boundaries and often have no or only little physical presence in domestic markets. They also rely heavily on intangible assets, as their value creation stems primarily from knowledge-intensive activities (see table 1 below).

Table 3.1: Firm characteristics of largest multinational companies

Type of MNE	Annual Revenue Growth	International Footprint	Relevance of Intangible Assets
Digital	14.2%	2.1	3.1
IT & Telecoms	3.1%	2.2	1.2
Other	0.2%	1.1.	1.4

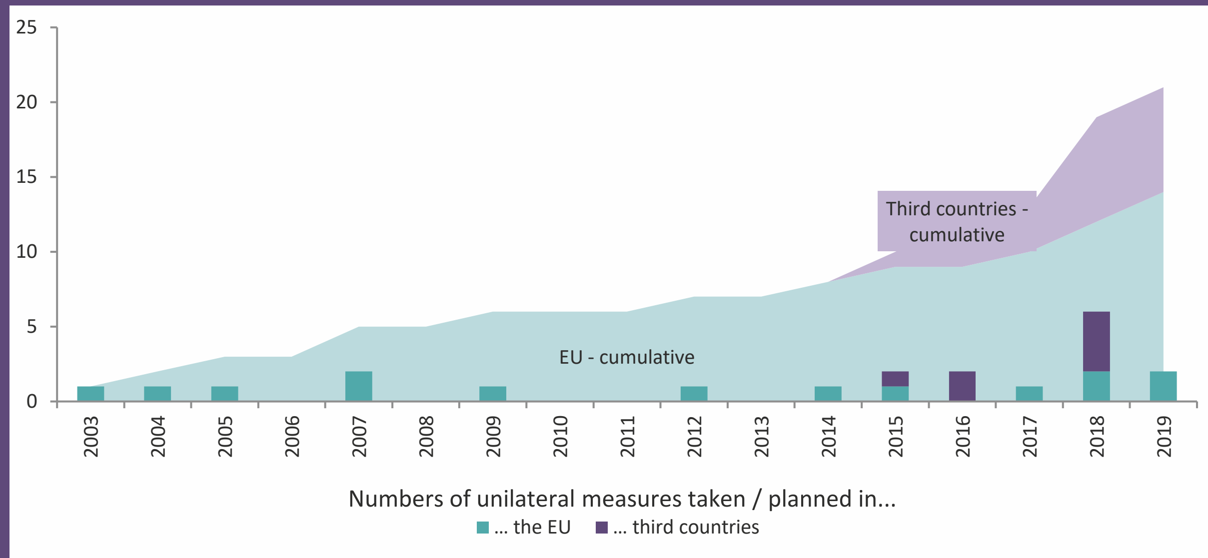
Source: Own computations based on UNCTAD[124][125] and Bureau van Dijk Orbis database. *Note:* International footprint is the ratio of the share of foreign sales in total sales to the share of foreign assets in total assets. The relevance of intangible assets is computed as the market capitalisation over equity book value minus 1.

The consequences of digitalisation pose a challenge for Member States across Europe on various frontiers. Fundamentally, the international framework of corporate taxation has not yet been adapted to the new digital reality. Current rules determining corporate taxation only allow countries to tax companies if they have a physical presence in their jurisdiction. These rules were designed in the beginning of the 20th century, at a time when the possibilities to, for instance, sell in a country without a significant physical presence were negligible for firms. Yet digital companies are able to conduct business operations in an immaterial way, as the connection to the locality where it makes its profit may consist solely of data flow. Moreover, consumers themselves provide substantial value to the digital enterprise via their data-generating actions. In consequence, there exists a growing mismatch between tax rules and value creation. In addition, the transnational and intangible-intensive business models of digital firms also enable them to exploit existing aggressive tax planning schemes more easily.

In order to maintain stability of public finances and limit tax avoidance by digital firms, many countries around the world implemented or plan to implement specialised taxes targeting certain digital activities (see figure 1). Yet the introduction of country-specific tax regimes in the EU leads to risks of new obstacles and loopholes in the Single Market, high tax compliance costs and may result in double taxation of digitalised companies that supply cross-border services in the single market. This hurts the competitiveness of the EU as a whole, adds uncertainty and risks the fragmentation of the single market. Moreover, once in place, the existence of heterogeneous tax rates on different digital goods and services across the EU will render future harmonisation of digital tax policy even more difficult.

[124] UNCTAD (2017a)
[125] UNCTAD (2017b)

Graph 3.1: Development of number of new measures targeting businesses in the digital economy in the EU28



Source: Commission Services

Against this background, on March 21, 2018 the European Commission adopted the Digital Tax Package. This initiative aims to ensure the integrity and proper functioning of the single market, and help to foster competition and innovation in the economy. Moreover, by improving the fight against aggressive tax planning, it will maintain the stability of public finances in the EU and create a level playing field for all businesses. The package contains two solutions that together stabilise an EU position on the preferred international approach to digital taxation in the long-term, while providing an interim solution to act pre-emptively in the short-term.

First, the Digital Tax Package provides a proposal for a comprehensive solution, which aims to adapt international corporate tax rules to the digital reality. At its heart, it includes a Directive that revises permanent establishment and profit allocation rules by introducing the concept of digital significant presence. First, a company will be considered "taxable" in a Member State if it has at least 100 000 users, 3 000 business contracts or 7 million EUR revenues from supplying digital services there. Second, user participation will be taken into account when deciding the amount of profits a country has the right to tax. The new rules proposed in the Directive should be reflected in the CCCTB. The comprehensive solution also provides recommendations to Member States on how to update their double tax conventions with third countries regarding the new rules of the Directive.

Second, the Digital Tax Package acknowledges that there is an immediate need for coordinated EU action. While the comprehensive solution remains the preferred option, progress in the field of international tax practices is usually taking time. As an interim solution, the Commission hence proposed a new 'digital services tax' (DST), which would close the most urgent gaps and loopholes in the taxation of digital activities. The measure ensures that those activities with the largest mismatch between taxation and the location of value creation are taxed immediately.

The DST would be levied at 3%, on companies with revenue of at least EUR 50 million in the EU and at least EUR 750 million total global turnover (irrespective of the underlying activity). These provisions ensure a level playing field among firms and restrict neither small and medium enterprises nor digital start-ups in their activities. If implemented, the DST would yield tax revenues of about €5 billion, and will target roughly one hundred digital multinationals active in the EU.

3.2.2 Indirect Taxation

In April 2016 the Commission adopted an Action Plan on VAT[126] which outlined the need to put in place a single European VAT area that could cater for the challenges of the 21st century. The VAT Action Plan contains a set of key measures to be adopted in the short and medium term in order to modernise the EU VAT system and make it simpler, more fraud-proof and more business-friendly. These measures respond to several objectives: adapting the VAT system to the global, digital and mobile economy, supporting the needs of SMEs, providing for an adequate rates policy, putting an end to cross-border fraud and helping Member States close the VAT gap. Following the adoption of this Action Plan, the European Commission has made a series of proposals to work towards its completion.

3.2.2.1 VAT e-commerce Directive

In December 2017, the Council adopted the VAT e-commerce Directive[127], which is part of the Commission's Digital Single Market Strategy. This new initiative will simplify the VAT collection when consumers buy goods and services online. E-commerce suppliers will have the option to use a single electronic VAT registration and payment scheme (One-Stop Shop) for their intra-EU distance sales of goods and for their distance sales of goods imported from third territories or third countries in consignments not exceeding EUR 150. At the same time this simplification which is currently limited to telecommunication, broadcasting and electronically supplied services (TBE services) will be extended to cover all services supplied cross-border to consumers. The new Directive also removes the EUR 22 exemption threshold for importation of low value consignments, ensuring fair competition for EU businesses. These new rules will be applicable as of 1 January 2021.

In addition, from 1 January 2019, EU start-ups and micro-businesses selling TBE services will also benefit from simplified VAT rules. Thus, the VAT on cross-border TBE sales under EUR 10,000 will be handled as domestic sales and SMEs providing TBE services will benefit from simpler procedures for cross-border sales of up to EUR 100,000.

3.2.2.2. Single VAT area

In October 2017, the Commission adopted a first package of proposals on the definitive VAT system for intra-Union business-to-business supplies of goods.[128]

These proposals contain:

- Certain short-term improvements to the current VAT system, the so-called 'quick fixes', intended to deal with specific problems within the current VAT system, as explicitly requested by the businesses and also by Member States in the Council conclusions of 8 November 2016. These include:
    - Simplification and harmonization of rules regarding call-off stock arrangements;
    - Substantive value to be assigned to the VAT identification number of the customer in order to exempt from VAT an intra-Community supply of goods;
    - Simplification of rules in order to enhance legal certainty regarding chain transactions;

[126] See: https://ec.europa.eu/taxation_customs/business/vat/action-plan-vat_en
[127] Directive 2017/2455/EU
[128] See : https://ec.europa.eu/taxation_customs/business/vat/action-plan-vat/single-vat-area_en

  - The harmonisation and simplification of rules on the proof of intra-EU transport of the goods in order to exempt from VAT an intra-Community supply of goods.

- The cornerstones of the definitive VAT system, in particular:
  - Taxation at the Member State of destination of the intra-Union supplies of goods and services;
  - VAT liability of the supplier (or the acquirer if he is a certified taxable person – the status of a reliable taxpayer granted by a tax authority) and
  - A broad One-Stop-Shop mechanism through which to pay, declare and deduct VAT with one single registration in the Union – going far beyond the one-stop shop established by the VAT e-commerce package recently adopted by the Council. The certified taxable person concept combined with the liability of the customer when he is a certified taxable person would allow a smooth transition towards a definitive VAT system.

As announced in the Communication on the follow-up to the Action Plan on VAT,[129] the Commission adopted in May 2018 a proposal on the detailed technical measures for the operation of the definitive VAT system putting thereby in practice the 'cornerstones' of an EU single VAT area.[130] The proposal changes fundamentally the current VAT system by taxing business to business (B2B) cross-border sales of goods from one EU country to another the same way as when goods are sold within a single country.

The aim of the Commission's proposal is to make the EU VAT system more robust and simpler by setting the rules of the definitive VAT regime for intra-Union business-to-business trade in goods. The specific objectives of the initiative are the fight against cross-border VAT fraud, endemic in the current system, and the reduction of VAT compliance costs for businesses trading across the EU.

In October 2018, the Council agreed on a general approach regarding the four quick fixes contained in the aforementioned first package of proposals. Member States will apply the relevant provisions from 1 January 2020.

3.2.2.3. SMEs

In January 2018, the Commission adopted the proposal on the VAT SME simplification package.[131] It covers the reviewed provisions on both VAT exemption for small enterprises and simplification measures for exempt and non-exempt small enterprises.

The aims of the Commission's proposal are to reduce compliance costs for SMEs, to provide more level playing field for them and to contribute to the fight against the VAT fraud.

3.2.2.4. VAT rates

The Commission has recently presented a number on proposals concerning VAT rates.

In December 2016, the Commission presented a proposal for VAT rates on e-publications,[132] aiming to grant all Member States the possibility to apply reduced rates to electronically supplied publications as they currently are allowed to do with regard to printed publications. In October 2018

[129] COM(2017) 566.
[130] COM 2018/0164 (CNS)
[131] Directive 2018/0006/CNS
[132] COM(2016) 758.

the Council reached a political agreement on this proposal. Formel adoption is expected in November 2018.

In December 2017, the Commission released a proposal for a minimum standard VAT rate[133] with the aim to make permanent the minimum standard rate of 15%. The Council adopted this proposal in June 2018.

In January 2018, the Commission adopted a proposal for modernising the rules on VAT rates.[134] The aim is to allow Member States greater freedom in setting reduced rates under a VAT system based on the destination principle. These new rules would allow a wider application of the fiscal neutrality principle. The current list of goods and services to which reduced rates can be applied would be abolished and replaced by a so-called negative list of goods and services on which the standard rate shall be applied. Member States would also be required to ensure that reduced rates are for the benefit of the final consumer and that the setting of these rates pursues an objective of general interest. Member States would need to ensure that the weighted average VAT rate applied to those transactions for which VAT cannot be deducted always exceeds 12%. Discussions on this proposal are ongoing in the Council.

3.2.3. Other Initiatives at EU Level

Improved rules for fighting money laundering and terrorist financing. It is essential that banks and other obliged entities apply preventive and reactive measures against money laundering and terrorist financing. Provisions at EU level in that respect date back to 1990 and have been constantly revised in order to mitigate risks relating to money laundering and terrorist financing. In 2015, the EU adopted a modernised regulatory framework that includes the so-called Fourth Anti-Money Laundering Directive.[135] It takes into account the 2012 Recommendations of the Financial Action Task Force (FATF) and goes further on a number of issues (for example, it foresees a central register for all corporate and other legal entities and for trusts that generate tax consequences) to promote the highest standards for anti-money laundering and to counter terrorism financing. On 30 May 2018, the Council and the Parliament adopted amendments to the Fourth Anti-Money Laundering Directive (Fifth Anti-Money Laundering Directive)[136] that further enhance the standard for fighting money laundering and terrorist financing in the EU. The main improvement involve broadening access to information on beneficial ownership, improving transparency in the ownership of companies and trusts by ensuring all legal entities and trusts active in the EU are included in central interconnected registers that are accessible to the public for the most part, addressing risks linked to prepaid cards and virtual currencies, cooperation between financial intelligence units and improved checks on transactions involving high-risk third countries.

Over the past few years, the Commission has opened several state aid cases related to business taxation. In doing so, it has pursued its obligation to control State aid granted in the form of tax measures, as part of its objective to reduce the distortions of competition in the single market. EU State aid rules help to ensure that companies can compete on their merits within the Single Market. The rules prevent Member States from giving unfair advantages only to selected companies. This distorts competition and is illegal under EU State aid rules.

[133] COM(2017) 783.
[134] COM(2018) 20.
[135] Directive 2015/849/EU
[136] Directive 2018/843/EU

In November 2017, the Council, Parliament and Commission jointly proclaimed the **European Pillar of Social Rights** at the Social Summit in Gothenburg. Progress on the Pillar will be monitored as part of the European Semester process. A number of specific initiatives to deliver on the Social Pillar have also been launched. These include the Work-Life Balance package, published in April 2017, which identified addressing economic disincentives for parents and carers to work as a priority area for action.[137] The Commission committed to continue to identify country-specific obstacles resulting from tax-benefits systems in this area, and monitor progress in addressing them.

[137] COM/2017/0252 final

3.3 Reform options

Taking into account what makes a fair and efficient tax system (Chapter 1), the specific situations in Member States (Chapter 2) and the general reform trends outlined in Chapter 3.1, there are various reforms options available to Member States looking to improve their taxation systems.

3.3.1 Stimulating investment, innovation and entrepreneurial initiative

Options for Member States aiming to do more to boost investment through tax policy means include:

Encouraging alternative sources of financing and risk-taking, focussing on efficiency-enhancing measures and designing better tax incentives:

- Encouraging investment through equity as a complementary source of financing to debt; moving from depreciation to immediate expensing of investment; allowing for comprehensive loss offsets; improving the effectiveness of tax incentives for promoting R&D, targeting companies based on a combination of criteria (such as age and size), and business angel and venture capital investment; and concentrating efforts on monitoring and simplifying tax incentives that have the potential to boost real investment.
- Shifting towards the taxation of economic rents.

Taking a proactive approach to embracing the digitalisation of the economy:

- Increasing the digitalisation efforts of tax administrations to facilitate tax compliance and improve customer-service.
- Providing tax certainty by keeping tax laws stable and, when changes need to happen, consulting taxpayers on changes.
- Simplifying and clarifying the application of tax rules to the collaborative economy.

3.3.2 Shifting the tax burden away from labour and focusing on the most reactive groups

For Member States that face challenges around employment and the tax burden on labour, potential reform options could include:

Focusing labour tax cuts on groups most reactive and facing the highest challenges:

- Focusing labour tax cut on groups facing the greatest unemployment challenges and precarious work conditions such as low-skilled, young people, elderly and long-term unemployment rather than generic tax reductions.
- Removing or amending features of the tax system that create high marginal tax rates for second earners, for example by tapering the withdrawal of income-related child tax credits, and moving from joint to individual taxation systems for couples.

Finance labour tax cuts by relying on alternative tax bases:

- Given budgetary constraints, labour tax cuts could be financed by relying on alternative tax bases such as consumption, environmentally harmful activities, and property, where the tax burden on those bases is comparatively low. The distributional impacts of such a shift are also a consideration and could be mitigated through targeted transfers where appropriate.

3.3.3 Correcting inequalities and promoting social mobility

Member States that face particular challenges in social fairness could consider:

Mitigating inequalities of income, wealth, and opportunities:

- Reducing disposable income inequalities through redistribution by strengthening progressive personal income taxation;
- Mitigating wealth inequalities and supporting equality of opportunities by increasing the progressivity of the overall tax mix, including the taxation of wealth transmission, capital income of individuals, and property.

Incentivising behaviour that facilitates social mobility

- Reducing tax burden on targeted population with the aim of creating jobs, as employment is one route out of social exclusion and poverty.
- Considering the role of entrepreneurship in support of social mobility

3.3.4 Strengthening administration, closing loopholes and promoting a culture of compliance

Reform options for Member States looking to combat tax fraud, evasion and avoidance include:

More cooperation and a stronger administrative capacity & legal framework:

- Combating tax fraud, evasion and avoidance making full use of enhanced transparency and cross-border cooperation tools – such as automatic exchange of information, sharing of analysis of data between countries, multilateral controls and joint audits.
- Making tax authorities more modern and digital to facilitate tax compliance and prevent tax abuse.
- Strengthening the legal framework, for example by closing loopholes in domestic legislation or reinforcing anti-abuse provisions.

Promoting trust, transparency and a culture of tax compliance:

- Communicating effectively to taxpayers the value delivered through tax revenues; monitoring and showing results of tax administrations' performance.
- Strengthening taxpayers' tax morale using communication and education campaigns.
- Cooperating with businesses to improve tax compliance while using behavioural economics insights to nudge taxpayers to do the right thing at the right time.
- Reinforcing at national level the protection and safeguards of whistleblowers who, acting in good faith, denounce serious threats or harm to the public interest.

Glossary

Allowance for corporate equity (ACE) is a corporate tax system where interest payments and a defined return on equity can both be deducted from the corporate income tax base. (It moves the system closer to financing neutrality between debt and equity at the corporate level.)

Allowance for growth and investment (AGI) is a corporate tax system where interest payments and a return on equity can both be deducted from the corporate income tax base. It moves the system closer to financing neutrality between debt and equity at the corporate level. It goes some steps further than ACE because it removes tax avoidance by cascading the benefits (the funds injected in a group benefit from deductibility only once), uses an incremental system based on a moving reference year and allows for negative allowances.

Business Angel (BA) is a knowledgeable private individual, usually with business experience, who directly invests part of his or her personal assets in new and growing unquoted businesses. Besides capital, business angels provide business management experience for the entrepreneur.

Comprehensive business income tax (CBIT) A type of corporate tax system where neither interest payments nor the return on equity can be deducted from corporate profits, and are thus fully taxed at the normal corporate income tax rate. It equalises the tax treatment of debt and equity finance at the corporate level.

Controlled foreign companies attribute a proportion of the income of a controlled foreign company to its resident controlling shareholder and tax that shareholder to that income if certain conditions are met (usually that the tax rate in the foreign country is lower than a set percentage of the tax rate in the country applying the CFC charge).

Direct tax is a tax levied on a situation that is durable by nature and directly upon a specific (legal or natural) person via a notice of assessment. E.g. personal income tax, corporate income tax, wealth tax.

Effective average tax rate (EATR) is a tax rate calculated from the nominal tax rate and the definition of the tax base. Particularly, this effective tax rate is based on total investment income.

Effective marginal tax rate (EMTR) is a tax rate calculated from the combination of the nominal (i.e. statutory) tax rate and the definition of the tax base (i.e. the taxable profit). In particular, this effective tax rate is based on additional investment income.

Environmental taxes include taxes on energy, transport, pollution and resources (excluding VAT, as this is levied on all products). **Energy taxes** include taxes on energy products used for both transport (e.g. petrol and diesel) and stationary purposes (e.g. fuel oils, natural gas, coal and electricity). **Transport taxes** include taxes related to the ownership and use of motor vehicles. They also include taxes on other transport equipment such as planes and on related transport services, e.g. duties on charter or scheduled flights. **Pollution taxes** include taxes on measured or estimated emissions to air (except taxes on carbon dioxide emissions) and water, on the management of solid waste and on noise. **Resource taxes** include any taxes linked to the extraction or use of a natural resource (e.g. taxes on licence fees paid for hunting and fishing rights).[138]

European Semester is an annual cycle of economic policy coordination in the European Union. In this process, the European Commission analyses Member States' budgetary, structural and investment policies, provides proposals for the Council's recommendations to each Member State, and monitors their implementation.

[138] This definition is based on 'Environmental taxes — a statistical guide' (European Commission, 2013).

Implicit tax rate on consumption is the ratio of revenue from all consumption taxes to households' final consumption expenditure.

Implicit tax rate on energy is the ratio of total revenue from energy taxes to final energy consumption.

Inactivity trap measures the financial incentive for an inactive person not entitled to unemployment benefits (but potentially receiving other benefits such as social assistance) to move from inactivity to paid employment. It is defined as the rate at which the additional gross income of such a transition is taxed.

Indirect tax is a tax levied on a material or legal event of accidental or temporary nature and upon a (legal or natural) person that can often be an intermediate and not the person responsible for this event (hence the indirect character of the tax). E.g. Value-added tax, import levies, excise duties.

Low-wage trap measures the financial incentive to increase a low level of earnings by working additional hours. It is defined as the rate at which the additional gross income of such a move is taxed.

Social security contributions are mandatory contributions paid by employers and employees into a social insurance scheme set up to cover pensions, healthcare and other welfare provisions.

Tax avoidance is defined, according to the OECD glossary of tax terms, as the arrangement of a taxpayer's affairs in a way that is intended to reduce his or her tax liability and that - although the arrangement may be strictly legal - is usually in contradiction with the intent of the law it purports to follow.

Tax evasion generally comprises illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities.

Tax fraud is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted or fake documents are produced.

Tax wedge on labour is the difference between the wage costs to the employer of a worker and the amount of net income that the worker receives, expressed as a proportion of the overall wage costs. The difference arises as a result of taxes, including personal income tax and compulsory social security contributions.

Thin capitalisation rules are rules which restrict the deductibility of interest payments made by corporations with excessive debt to equity ratios.[139]

VAT collection gap is the difference between VAT revenue actually collected by the government and the theoretical net VAT liability for the economy as a whole, under the country's current VAT system. The theoretical net liability is estimated by identifying the categories of expenditure that give rise to irrecoverable VAT and applying the appropriate VAT rates to the respective estimates of expenditure in the different categories.

Venture capital (VC) is as investment in unquoted companies by venture capital firms who, acting as principals, manage individual, institutional or in-house money. In Europe, the main financing stages included in venture capital are: early-stage, covering seed and start-up, and expansion. Strictly defined, venture capital is a subset of private equity. Offsetting the high risk the investor takes is the expectation of higher than average return on the investment.

[139] Adapted from Arnold & McIntyre, International Tax Primer, Second Edition, Kluwer International, 2002

Withholding tax refers to a tax on income imposed at source, i.e. a third party is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the government. Withholding taxes are found in practically all tax systems and are widely used in respect of dividends, interest, royalties and similar tax payments. The rates of withholding tax are frequently reduced by tax treaties.

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Annex A: Notes

Choice of indicators

The indicators in *Tax Policies in the EU: 2018 Survey* are drawn from various sources. The indicators presented provide a useful tool for identifying areas where policies could be improved. However, these results will always need to be interpreted alongside in-depth country analysis before any conclusions can be made as to appropriate policies. This type of in-depth analysis is beyond the scope of this report; it is instead carried out as part of the European Semester.

The Tax Policies in the EU survey does not claim to be comprehensive and there are inevitably other indicators that could have been used. Factors taken into account in the choice of indicator include completeness (wherever possible, data is presented for all 28 Member States), clarity and reliability. Choosing indicators is a particular challenge in certain areas – for example, it is by definition difficult to estimate how much money is lost to tax fraud, evasion and avoidance. Despite the measurement challenges, this report looks into indicators which are generally considered as relevant and which can help to better understand the size or relevance of the features or phenomena examined.

Where available and relevant, the average for the EU-28 is presented alongside the country-specific data. This is intended to assist readers in understanding the relative levels in different Member States and should not be interpreted as suggesting that the EU average represents an ideal level.

State Aid

Member States must ensure the compliance of all their tax measures with EU State aid rules and notify to the Commission all relevant measures, to the extent they are not covered by the General Block Exemption Regulation[140] and the De Minimis Regulation[141]. This report is without prejudice to a possible State aid assessment of national tax measures by the Commission.

[140] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187, 26.6.2014, p.1-78
[141] Commission Regulation (EC) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid, OJ L 352, 24.12.2013, p.1-8

Annex B: Overview tables of tax reforms in EU Member States

This Annex contains overview tables of tax reforms that were announced, legislated or implemented in the course of 2017 in EU Member States. The tables are taken from the 2018 edition of the European Commission publication *'Taxation Trends in the European Union: Data for the EU Member States, Iceland and Norway'*.

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Belgium

Description of measure	Change	Date
Personal income tax: Savings		
Increase of the standard withholding tax rate from 27 % to 30 %; and increase from 17 % to 20 % of the withholding tax on distributed liquidation reserves within the first five years (new reserves built up since 1/1/2017).	Rate increase	Announcement: 20-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Transparency tax: extension of the scope.	Base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Withholding tax exemption on the interest on savings accounts.	Base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Withholding tax exemption on dividends.	Base decrease	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Alignment of the tax system for distributions of contractual investment funds with distributions made by investment companies.	Base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Extension of the withholding tax of 30 % to investment funds investing more than 10 % of their assets in debt claims. The threshold was 25 % previously.	Base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Corporate income tax		
Extension of the new real estate investment vehicle (FIIS/GVBF) to non-profit sector clients.	Base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Re-estimation of new and old anti-tax fraud and anti-tax evasion measures.	Base increase	Announcement: 25-06-2015 Legislation: 18-09-2017 In force from: 43024
Broad CIT reform: boosting competitiveness by : - reducing the tax rate to 25 % between 2018 and 2020, - raising the dividend exemptions to100 % - abolishing the minimum rate for capital gains of large companies.	Rate decrease; base increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
Increase in excise duty on diesel (click) and reduction duty on petrol (reverse click).	Rate increase	Announcement: 22-04-2016 Legislation: 25-12-2017 In force from: 01-01-2018
Increase in excise duty on tobacco.	Rate increase	Announcement: 28-8-2015 Legislation: 25-12-2017 In force from: 01-01-2018
Indexation of excise duty on energy products.	Rate increase	Announcement: 2014 Legislation: 25-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Health-related taxes		
Increase of the excise duty on sugar sweetened and artificially sweetened beverages.	Rate increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Increase of specific excise duty on tobacco products.	Rate increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Transaction taxes (movable and immovable property)		
Tax on stock exchange transactions becomes applicable to transactions ordered by a resident through a foreign intermediary; and the maximum tax amount is doubled (EUR 650 to EUR 1300; EUR 800 to EUR 1 600; and EUR 2 000 to EUR 4 000).	Base increase	Announcement: 20-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Increase of the rates of the tax on stock exchange transactions.	Rate increase	Announcement: 28-07-2017 Legislation: 25-12-2017 In force from: 08-01-2018
Recurrent taxes on (net) wealth		
Introduction of an annual tax on securities accounts.	New tax	Announcement: 28-07-2017 Legislation: 01-02-2018 In force from: forthcoming

Bulgaria

Description of measure	Change	Date
Personal income tax: Earned income		
Reduction of the scope of tax exempted income by introducing taxation for winnings and prizes received from participation in games of chance which are not considered to be gambling under the Gambling Act or under the law of another country - an EU member state or country - part of the EEA Agreement, in which profits are determined randomly.	Base increase	Legislation: 06-12-2016 In force from: 01-01-2017
Tax relief for effected non-cash payments - natural persons who have effected non-cash payments amounting to 80 % or more of their aggregated annual taxable income may use in certain conditions 1 % deduction from the annual personal income tax due but not more than BGN 500.	Rate decrease	Legislation: 06-12-2016 In force from: 01-01-2017
Social security contributions: Employee		
Increase in the insurance contribution to the Pensions Fund as of 1 January 2017 and as of 1 January 2018 by 1 percentage point, of which 0.44 at the expense of the insured person.	Rate increase	Announcement: 11-08-2015 Legislation: 01-01-2016 In force from: 01-01-2017
Increase in minimum monthly insurance incomes on which the social security contributions of employees are levied by 2.6 % on average.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Increase in minimum monthly insurance incomes on which the social security contributions of employees are levied by 3.9 % on average.	Base increase	Legislation: 12-12-2017 In force from: 01-01-2018
Social security contributions: Employer		
Increase in the insurance contribution to the Pensions Fund as of 1 January 2017 and as of 1 January 2018 by 1 percentage point, of which 0.56 at the expense of the social insurance contributor.	Rate increase	Announcement: 11-08-2015 Legislation: 01-01-2016 In force from: 01-01-2017
Increase in minimum monthly insurance incomes of employees on which the social security contributions of employers are levied by 2.6 % on average.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Increase in minimum monthly insurance incomes of employees on which the social security contributions of employers are levied by 3.9 % on average.	Base increase	Legislation: 12-12-2017 In force from: 01-01-2018
Social security contributions: Self-employed		
Increase in the insurance contribution to the Pensions Fund as of 1 January 2017 and as of 1 January 2018 by 1 percentage point.	Rate increase	Announcement: 11-08-2015 Legislation: 01-01-2016 In force from: 01-01-2017
Increase of minimum monthly insurance income on which the social security contributions are levied in accordance with the personal taxable income for 2015 of self-insured persons.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Remove the differentiation of the minimum monthly insurance income for self-employed persons and set up the monthly amount of the insurance income for this category of persons at the level of the national minimum wage - BGN 510 as from 1 January 2018.	Base increase	Legislation: 12-12-2017 In force from: 01-01-2018
Increase in minimum monthly amount of insurance income on which the social security contributions for registered farmers and tobacco growers are levied - from BGN 300 to BGN 350.	Base increase	Legislation: 12-12-2017 In force from: 01-01-2018
Corporate income tax		
Extending the scope of automatic exchange of information in the field of taxation by establishing rules for the exchange of information on advance cross-border rulings and advance pricing arrangements issued in the Member States (Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EC).	N/A	Legislation: 04-08-2017 In force from: 04-08-2017

Description of measure	Change	Date
Extending the scope of automatic exchange of information in the field of taxation by establishing rules for the exchange of country by country reports provided by multinational enterprise groups (Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EC).	N/A	Legislation: 04-08-2017 In force from: 04-08-2017
Value-added tax		
Introduction of VAT exemption for the free of charge provision of foodstuffs close to their expiry date and marked as "donation, not for sale" to non-profit legal entities who are registered as food bank operators and perform humanitarian activity.	Base decrease	Legislation: 08-11-2016 In force from: 01-01-2017
Health-related taxes		
Change in the ratio between specific and proportional excise duty rates on cigarettes - specific excise is increased from BGN 70 to BGN 101 per 1 000 pieces and proportional is decreased accordingly to reach the minimum EU levels as of 1 January 2018 (27 % from retail price for 2017 and 28 % from retail price for 2018).	Rate increase	Legislation: 06-12-2016 In force from: 01-01-2017
Change in the ratio between specific and proportional excise duty rates on cigarettes - specific excise is increased from BGN 101 to BGN 109 per 1 000 pieces and proportional is decreased accordingly from 28 % to 25% from retail price for 2018 to reach the minimum EU levels as of 1 January 2018 - EUR 90 (BGN 177) per 1 000.	Rate increase	Legislation: 04-08-2017 In force from: 01-01-2018
Introduction of the heated tobacco products as a new category of excisable goods. The excise rate on heated tobacco products is BGN 152 per kilogram.	Base increase	Legislation: 04-08-2017 In force from: 01-01-2018
Other excise duties		
Repeal of the administrative obligations of persons to submit to customs authorities certificates of presence or absence of tax liabilities and mandatory social security contributions for purposes of licensing or registration under the Excise Duties and Tax Warehouse Act.	N/A	Legislation: 06-12-2016 In force from: 01-01-2017

Czech Republic

Description of measure	Change	Date
Personal income tax: Earned income		
Increase in child tax credit for second and another child from 2017.	Neutral	Announcement: 04-04-2017 Legislation: 16-06-2017 In force from: 01/07/2017
Increase in child tax credit for first child from 2018.	Neutral	Announcement: 08-06-2017 Legislation: 12-07-2017 In force from: 01-01-2018
Tax exemption of retirement claims for members of armed forces.	Base decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Increase in tax allowances for life insurance and retirement savings.	Neutral	Legislation: 28-12-5015 In force from: 01-01-2017
Personal income tax: Unincorporated businesses/Self employment income		
Cap on lump-sum deductions and reintroduction of tax credit for dependent children and spouses of entrepreneurs.	Neutral	Announcement: 04-04-2017 Legislation: 16-06-2017 In force from: 01-07-2017
Value-added tax		
VAT rate reductions on newspapers and magazines (from 15 % to 10 %).	Rate decrease	In force from: 01-03-2017
Other excise duties		
Introduction of legislation that regulates consumption of narcotic and other addictive substances. This regulation targets tobacco products as well. The main goal of this act is to regulate availability of alcohol and tobacco products. The regulation should lead to decrease in their consumption (it is suggested ban on smoking in restaurants and bars; tightening of sale of tobacco products).	Neutral	Announcement: 03-06-2015 Legislation: 20-02-2017 In force from: 31-05-2017
Introduction of tax refund from the excise tax on diesel used in livestock production.	Neutral	Announcement: 01-12-2016 Legislation: 29-12-2016 In force from: 01-03-2017
Other taxes		
Introduction of new Act on gambling. The existing Act on lottery is abolished and replaced with the new Act on gambling. The revenue will remain at the same level (possible slight increase). However, the structure of the yield will be changed. Gambling on the internet will be opened for all economic operators (especially foreign economic operators will be able to run internet gambling legally). The new Act will also introduce measures that will reduce negative impacts of gambling (alcoholism, gamblers on welfare will not be allowed to gamble).	Rate increase	Announcement: 28-08-2015 Legislation: 26-05-2016 In force from: 01-01-2017

Denmark

Description of measure	Change	Date
Personal income tax: Earned income		
Increase in the marginal tax rates due to gradual abolition of the PSO tax from 2017 to 2022. Expenses formerly financed by the PSO tax are gradually moved to the Finance Act.	N/A	Announcement: 24-01-2017 Legislation: 01-03-2017 In force from: 01-01-2018
Corporate income tax		
The North Sea Agreement – A reduction on the tax on oil and gas extraction. Main points of the agreement are the following: • A DKK 100 million pool will be set up for green initiatives related to oil and gas extraction. • An investment window from 2017-2025 is introduced. This implies: • The hydrocarbons deduction will be increased over a six-year period from 5 % annually to 6.5 % annually. • The rate of the declining balance depreciation of hydrocarbon tax is increased from 15 % to 20 %. • The date for the two deductions mentioned above is changed from the time the investments start being used to the time of payment. The agreement ensures that if the oil price rises to at least $ 75 per barrel, as expected by the state, then the companies must start paying back the tax discount.	Base decrease	Announcement: 28-03-2017 Legislation: 28-11-2017 In force from: 01-01-2018
Agreement on exemption from corporation tax for theatres and day-care centres. The tax exemption is financed by reducing the funding given to theatres that will benefit from the tax exemption by 0.3 % per annum. Privately-owned theatres that distribute profits to their owners will still have to pay tax of the profit.	Base decrease	Announcement: 17-05-2018 Legislation: 19-12-2017 In force from: 01-01-2018
Other corporate taxes		
Easing certain parts of business taxation such that life insurance companies receive a deduction for special bonus provisions, and cooperatives under the cooperative tax system can in the future determine the value of their unlisted shares based on the tax intrinsic value.	N/A	Announcement: 05-10-2016 Legislation: 29-11-2016 In force from: 01-01-2017
Extension of the deductibility of business related expenditures on wages, salaries, directors' fees and business expenses related to tenure.	Base decrease	Announcement: 15-11-2017 Legislation: 19-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
Reduction of the tax on electricity for amusements in amusement parks.	N/A	Announcement: 05-10-2016 Legislation: 29-11-2016 In force from: 01-01-2017
Decrease in the vehicle registration fee, by a change in when the highest tax rate of 150 % is used. The 150 % tax is now levied on cars with a value of DKK 106 600 and motorcycles with a value of DKK 33 600.	Rate decrease	Announcement: 09-12-2016 Legislation: 10-01-2017 In force from: 15-01-2017

Description of measure	Change	Date
Adjustment of agreement on future tax conditions for electric cars and fuel cell cars: A number of relaxations in the phase-in of taxes on electric and hydrogen cars. Some of the main elements are: The registration fee remains 20 % of the ordinary taxes plus basic deduction until 5000 new registrations have been reached – however no later than 1 January 2019. Afterwards the tax will annually be gradually introduced until in 2022 when it is fully phased in. In 2017-2021 a temporary deduction in the basis for the registration tax of DKK 1700 per kWh battery capacity, however not exceeding 45 kWh, is introduced.	Rate decrease	Announcement: 03-05-2017 Legislation: 02-06-2017 In force from: 01-01-2017
Recurrent taxes on immovable property (business and residential)		
Freeze of the land tax extended by one year, so that the taxable base for all properties cannot increase between 2016 and 2017.	Neutral	Announcement: 14-12-2016 Legislation: 02-03-2017 In force from: 01-01-2017
Agreement on property taxation includes e.g.: • Lower tax rates on both land tax (property tax) and property value tax. • A precautionary principle that sets the tax base for land tax and property value tax 20 % below the current public assessment of property. • A tax discount that insures that no homeowner has to pay more in total property taxes at the transition to the new rules in 2021. • A freezing scheme that provides homeowners with an opportunity to postpone increases in their tax payment.	Rate decrease; base increase	Announcement: 02-05-2017 In force from: 2021
Other taxes		
Agreement on Enterprise and Entrepreneurship Initiatives: Primarily includes lower taxes on some of the goods most sensitive to cross-border shopping. In addition, a number of taxes are completely abolished, including the tax on nuts, which will be completely abolished by 1 January 2020. In addition, a number of reductions are introduced regarding both the equity income tax, including a share savings account and an investment tax credit, as well as personal income tax, including tax rules for foreign researchers, the Danish International Register of Shipping arrangement and taxation of individual employee shares.	Rate decrease; base decrease	Announcement: 12-11-2017 Legislation: 26-12-2017 In force from: 01-01-2018
National budget compromise for 2018: • A permanent arrangement for deducting household and builder's services in the taxable income per person (BoligJobordning) • Introduction of tax redemptions for phones • Equalization tax on disbursements from pension savings will be removed	Base decrease	Announcement: 08-12-2017 Legislation: 22-12-2018 In force from: 01-01-2018

Germany

Description of measure	Change	Date
Personal income tax: Earned income		
Increase of basic personal allowance from EUR 8 652 by EUR 168 to EUR 8 820.	Base decrease	Legislation: 20-12-2016 In force from: 01-01-2017
Further adjustment for fiscal drag by 0.73 %.	Base decrease	Legislation: 20-12-2016 In force from: 01-01-2017
Further increase of the basic allowance for children by EUR 108 from EUR 7 248 to EUR 7 356.	Base decrease	Legislation: 20-12-2016 In force from: 01-01-2017
Further Increase of child benefit by EUR 24 per child per year.	Base decrease	Legislation: 20-12-2016 In force from: 01-01-2017
Boosting the implementation of company pension plans on a voluntary basis; measures aimed at SMEs and low-income earners.	N/A	Legislation: 17-08-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Increase of the value limit for the immediate write-off of movable assets, so-called low cost assets by EUR 390 to EUR 800.	Base decrease	Legislation: 27-06-2017 In force from: 05-07-2017
Social security contributions: Employee		
Increase of SSC (long term care) by 0.2 percentage points to 2.55 % (applies to both employer and employee SSCs as they share the burden 50/50).	Rate increase	Legislation: 21-12-2015 In force from: 01-01-2017
Decrease of the supplemental contribution rate on average to statutory health insurance by 0.1 percentage points to 1.0 %.	Rate decrease; base increase	Legislation: 23-10-2017 In force from: 01-01-2018
Decrease of the contribution rate to statutory pension insurance by 0.05 percentage points to 9.3 %.	Rate decrease; base increase	Legislation: 18-12.2017 In force from: 01-01-2018
Social security contributions: Employer		
Decrease of the contribution rate to statutory pension insurance by 0.05 percentage points to 9.3 %.	Rate decrease	Legislation: 18-12.2017 In force from: 01-01-2018
Corporate income tax		
Increase of the value limit for the immediate write-off of movable assets, so-called low cost assets by EUR 390 to EUR 800.	Base decrease	Legislation: 27-06-2017 In force from: 05-07-2017
Boosting the implementation of company pension plans on a voluntary basis; measures aimed at SMEs and low-income earners.	N/A	Legislation: 17-08-2017 In force from: 01-01-2018
Other corporate taxes		
Increase of the value limit for the immediate write-off of movable assets, so-called low cost assets by EUR 390 to EUR 800.	Base decrease	Legislation: 27-06-2017 In force from: 05-07-2017
Boosting the implementation of company pension plans on a voluntary basis; measures aimed at SMEs and low-income earners.	N/A	Legislation: 17-08-2017 In force from: 01-01-2018

Estonia

Description of measure	Change	Date
Personal income tax: Earned income		
Increase of basic allowance from EUR 2 040 to EUR 2 160 per year.	Base decrease	Legislation: 15-06-2015 In force from: 01-01-2017
Increase of supplementary basic allowance for pensions from EUR 2 700 to EUR 2 832 per year. Was abolished from 2018 because basic allowance reform (2018) replaced this measure.	Base decrease	Legislation: 24-12-2016 In force from: 01-01-2017
Reducing housing loan interest deduction limit from EUR 1 200 to EUR 300 per year.	Base increase	Legislation: 24-12-2016 In force from: 01-01-2017
Social security contributions: Employer		
Simplifying company car taxation for private use.	Base increase	Announcement: 19-11-2016 Legislation: 07-07-2017 In force from: 01-01-2018
Corporate income tax		
Decrease of tax rate from 20 % to 14 % in case of regularly distributed profits, advance CIT of banks and limiting profit shifting as loans abroad.	Rate decrease; base increase	Announcement: 19-11-2016 Legislation: 07-07-2017 In force from: 01-01-2018
Simplifying company car taxation for private use.	Base increase	Announcement: 19-11-2016 Legislation: 07-07-2017 In force from: 01-01-2018
Environmentally-related taxes		
Natural gas excise rate increase by 20 % from 1.01.2017.	Rate increase	Legislation: 12-07-2014 In force from: 01-01-2017
Increase in excise duty rate on diesel and on gasoline by 10 % from 01.01.2017.	Rate increase	Legislation: 30-06-2015 In force from: 01-02-2017
Increase in excise duty rate on specially marked fuel by 10 % every year 01.02.2016; 1.01.2017; 1.01.2018.	Rate increase	Legislation: 30-06-2015 In force from: 01-02-2016; 01-01-2017
Health-related taxes		
Increase in excise duty rate on all alcohol products by 10 % in 2017.	Rate increase	Legislation: 30-06-2015 In force from: 01-02-2017
Increase in tobacco excise rate by 8 % from 01/01/2017.	Rate increase	Legislation: 30-06-2015 In force from: 01-01-2017
Increase in excise duty rate on beer by 70 % and fermented beverages under 6 % by 45 % in 2017.	Rate increase	Legislation: 24-12-2016 In force from: 01-07-2017
Increase in excise duty rates on beer and wine under 6 % by 9 %, wine above 6 % by 20 % and other alcohol products by 5 % in 2018.	Rate increase	Announcement: 23-11-2017 Legislation: 16-01-2018 In force from: 01-02-2018

Ireland

Description of measure	Change	Date
Personal income tax: Earned income		
Reduction in Universal Social Charge: Existing rates of 1 %, 3 % and 5.5 % reduced to 0.5 %, 2.5 % and 5 %.	Rate decrease	Announcement: 11-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Increase to Home Carer Tax Credit: Max tax credit EUR 1 100 (was EUR 1 000).	Base decrease	Announcement: 11-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
New Fisher Tax Credit of EUR 1 270.	Base decrease	Announcement: 11-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Universal Social Charge (USC): - 2.5 % rate reduced to 2 % - EUR 600 increase to EUR 18 772 band ceiling - 5 % rate reduced to 4.75 % USC Rates & Bands from 1 January 2018: Incomes of EUR 13,000 are exempt. Otherwise: - EUR 0 – EUR 12 012 at 0.5 % - EUR12 012 – EUR 19 372 at 2 % - EUR 19 372 – EUR 70 044 at 4.75 % - Above EUR 70 044 at 8 % Self-employed income over EUR 100 000: 3 % surcharge. The rate for individuals earning above EUR 70 044 remains unchanged at 8 %.	Rate decrease	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Increase of EUR 750 in the income tax standard rate band for all earners, from EUR 33 800 to EUR 34 550 for single individuals and from EUR 42 800 to EUR 43 550 for married one earner couples.	Rate decrease	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Home Carer Tax Credit increased by EUR 100: Max tax credit EUR 1 200 (was EUR 1 100).	Rate decrease; base decrease	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Tapered extension of mortgage interest relief for remaining recipients – owner occupiers who took out qualifying mortgages between 2004 and 2012. 75 % of the existing 2017 relief will be continued into 2018, 50 % into 2019 and 25 % into 2020.	Rate decrease	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Earned Income Tax Credit: Maximum tax credit is increased by EUR 400 to EUR 950.	Base decrease	Announcement: 11-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Earned Income Tax Credit: Max. amount of tax credit is increased by EUR 200 to EUR 1 150.	Rate decrease; base decrease	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Personal income tax: Savings		
Reduction in rate of retention tax of 2 % each year over 4 years.	Rate decrease	Announcement: 11-10-2016 Legislation: 25-12-2016 In force from: 01-01-2017
Non tax compulsory payments: Employer		
0.1 % increase (from 0.7 % to 0.8 %) in employer contribution to National Training Fund levy.	Rate increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Other corporate taxes		
The aggregate of capital allowances for specified intangible assets and deduction for any related interest expense will be limited to 80 % of the trading income of the relevant trade arising from the use of the specified intangible asset(s) in an accounting period.	Rate increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 11-10-2017
Value-added tax		
Increase in the VAT rate on sunbeds from 13.5 % to 23 %.	Rate increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Charities VAT Compensation Scheme will be introduced in 2019 in respect of VAT expenses incurred in 2018. An amount of EUR 5 million will be available to the scheme in 2019.	Neutral	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
A 0% benefit-in-kind (BIK) rate is being introduced for electric vehicles for a period of 1 year. Electricity used in the workplace for charging vehicles will also be exempt from benefit in kind.	Neutral	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2017
The accelerated capital allowance scheme for energy efficient equipment, due to expire at the end of 2017, is being extended for a further 3 years	Neutral	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Health-related taxes		
The excise duty on a packet of 20 cigarettes increased by 50 cents (including VAT) with a pro-rata increase on the other tobacco products, and an additional 25 cents on roll-your-own tobacco.	Rate increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 10-10-2017
Subject to EU approval, a tax will apply from April 2018 to sugar sweetened drinks with a sugar content between 5 grams and 8 grams per 100ml at a rate of 20 cents per litre. A second rate will apply for drinks with a sugar content of 8 grams or above at 30 cents per litre.	New tax	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-04-2018
Transaction taxes (movable and immovable property)		
Change of rate of Stamp Duty on Non-Residential Property from 2 % to 6 %.	Rate increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 11-10-2017

Description of measure	Change	Date
Other taxes		
Key Employee Engagement Programme (KEEP) Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise.	Neutral	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018
Pre-letting Expenses – Rented Residential Property. A new deduction is being introduced for pre-letting expenses of a revenue nature incurred on a property that has been vacant for a period of 12 months or more. A cap on allowable expenses of EUR 5 000 per property will apply, and the relief will be subject to clawback if the property is withdrawn from the rental market within 4 years.	Base increase	Announcement: 10-10-2017 Legislation: 25-12-2017 In force from: 01-01-2018

Greece

Description of measure	Change	Date
Personal income tax: Earned income		
Tax credit reduced to EUR 1 250 for a taxpayer without children and with a taxable income up to EUR 20 000, EUR 1 300 for a taxpayer with one child, EUR 1 350 for a taxpayer with two children, and EUR 1 450 for taxpayers with 3 or more children. This brings the average tax-free threshold to around EUR 6 500. The maximum allowable offset of the tax credit is the sum of employment, pension, and farm income multiplied by the basic tax rate. Tax credit in excess of this eligible amount cannot be offset.	Base increase	Legislation: 19.05.2017 In force from: 1.1.2020
The tax rate for the first bracket will be reduced to 20 % (from 22 %). Therefore, the tax schedule applying to pooled business and employment income, as well as farming income, is: 20 % for up to EUR 20 000; 29 % for EUR 20 001 to EUR 30 000; 37 % for EUR 30 001 to EUR 40 000; 45 % for above EUR 40 000.	Rate decrease	Legislation: 19.05.2017 In force from: 1.1.2020
The solidarity surcharge will be imposed on income of more than EUR 30 000 (instead of EUR 12 000). It is levied on all income, whether subject to Personal income tax or not, including salaries, pensions, income from business activity, capital, capital gains and transfers, whether real or presumed. The tax rate will vary from 2 % for income between EUR 30 000 and EUR 40 000, rising progressively to 10 % for income over EUR 220 000.	Rate decrease	Legislation: 19.05.2017 In force from: 1.1.2020
Abolition of medical expenses tax allowance (1.1.2017) and of the 1.5 % reduction in income tax withheld on employment income and pension income (1.1.2018).	Base increase	Legislation: 19.05.2017 In force from: 01.01.2017; 01.01.2018
1 year suspension of tax imposed on any income arising from capital gains from the transfer of immovable property which does not constitute a business activity.	Neutral	Legislation: 22.12.2017
Tax will be imposed on income derived from short term property lease. This income is considered to be income from business activity, when additional services (apart from sheet cleaning) are provided.	New tax	Legislation: 19.05.2017 In force from: 01.01.2017
Abolition of the deduction from the taxable amount of the parliamentary allowance of the members of the Parliament.	Base increase	Legislation: 19.05.2017 In force from: 01.01.2017
Social security contributions: Self-employed		
Insurance contribution for self - employed (insured persons in former OAEE), free lancers (insured in former ETAA) and farmers (insured in former OGA) will be calculated as the sum of the monthly taxable income of the self-employed and payable social security contributions. In particular, for the year 2018, the insurance contribution is calculated at 85 % of the above taxable income.	Base increase	Legislation: 19.05.2017 In force from: 01.01.2018
Corporate income tax		
The CIT rate for all companies (regardless whether the companies are single bookkeeping or double bookkeeping) will be 26 % with the exception of credit institutions for which the CIT rate is 29 %.	Rate decrease	Legislation: 19.05.2017 In force from: 1.1.2020
Value-added tax		
A 6 months extension was granted, until 30.6.2018, for the reduced tax rates for the islands of Leros, Lesbos, Kos, Samos and Chios.	N/A	Legislation: 22.12.2017 In force from: 01.01.2018
Reduced VAT rate of 13 % for farm supplies (from 1.1.2017) and for services of retirement homes (from 1.1.2018)	Rate decrease	Legislation: 19.05.2017 In force from: 01.01.2018

Description of measure	Change	Date
Other excise duties		
Fuel excises: from 1.6.2016, natural gas used for electricity production is exempt from excise duty, from 1st of January 2017 Reduce Excise Duty on Natural Gas for households and production	Rate decrease; base decrease	Legislation: 27.5.2016 In force from: 1.6.2016; 1.1.2017
Fuel excises: from January 2017, increase in excise duty on petrol from EUR 670 to EUR 700 per 1 000 litres; on diesel from EUR 330 to EUR 410 per 1 000 litres, on kerosene from EUR 330 to EUR 410 per 1 000 litres, and on motor LPG from EUR 330 to EUR 430 per 1 000 Kg. From 1st January 2017, reduced excise duty on natural gas for heating in non-businesses (i.e. residential) from EUR 5.4/MWh (EUR 1.5/GJ) to EUR 1.07/MWh (EUR 0.3/GJ).	Rate increase; base increase	Legislation: 27.5.2016 In force from: 1.1.2017
Effective 1 January 2017: revision of the excise tax rates on natural gas for industrial/commercial (non-heating) use, with the new rates (EUR /MWh) based on consumption.	N/A	Legislation: 27.5.2016 In force from: 1.1.2017
Excise tax rates on cigarettes and tobacco: the excise tax regime on cigarettes was restructured from 1st January 2017 by increasing the ad valorem excise from 20 % to 26 % of the retail selling price. The specific tax on fine cut smoking tobacco was increased from EUR 156.70 to EUR 170 per kg.	Rate increase; base increase	Legislation: 27.5.2016 In force from: 1.1.2017
Consumption tax on e-cigarettes: a new tax of 10 cents/ml introduced on e-cigarettes from 1st January 2017.	New tax	Legislation: 27.5.2016 In force from: 1.1.2017
Consumption tax on coffee: new tax on coffee introduced from 1st January 2017 at EUR 2 per kilo on raw (non-roasted) coffee, EUR 3 on roasted coffee, and EUR 4 on instant coffee and other coffee-products.	New tax	Legislation: 27.5.2016 In force from: 1.1.2017
Abolition of excise duty imposed on isopropyl alcohol which is used in medicine, cosmetics production.	N/A	Legislation: 19.05.2017
Other taxes		
Communication levies: a new 5 % levy on landline and broadband subscriptions introduced from 1st January 2017.	New tax	Legislation: 27.5.2016 In force from: 1.1.2017
Tax rate on dividends increased from 10 % to 15 %.	Rate increase	Legislation: 12.5.2016 In force from: 1.1.2017

Spain

Description of measure	Change	Date
Social security contributions: Employee		
Regular update and increase in SSC lower ceiling by 8 % and upper ceiling by 3 %.	Base increase	Announcement: 02-12-2016 Legislation: 03-12-2016 In force from: 01-01-2017
Social security contributions: Employer		
Regular update and increase in SSC lower ceiling by 8 % and upper ceiling by 3 %.	Base increase	Announcement: 02-12-2016 Legislation: 03-12-2016 In force from: 01-01-2017
Social security contributions: Self-employed		
Regular update and increase in SSC upper ceiling by 3 %.	Base increase	Announcement: 02-12-2016 Legislation: 03-12-2016 In force from: 01-01-2017
Corporate income tax		
Non-allowance of losses derived from the transfer of shares or interests in companies, provided that such shares or interests qualify for the exemption on any positive income derived.	Base increase	Announcement: 02-12-2016 Legislation: 03-12-2016 In force from: 01-01-2017
Increase of the tax credit for investments in film productions, audio-visual series and live shows of performing and musical arts.	Neutral	Announcement: 06-06-2017 Legislation: 28-06-2017 In force from: 01-01-2017
Value-added tax		
Immediate Supply of Information System.	Neutral	Announcement: 02-12-2016 Legislation: 06-12-2016 In force from: 01-07-2017
Reduction of the tax rate applicable to live cultural shows, from 21 % to 10 %.	Rate decrease	Announcement: 4-4-2017 Legislation: 28-06-2017 In force from: 29-06-2017
Reduction of the tax rate applicable to the frames of prescription glasses, from 21 % to 10 %.	Rate decrease	Announcement: 4-4-2017 Legislation: 28-06-2017 In force from: 29-06-2017
Other excise duties		
Decrease in the partial refund of the Tax on Hydrocarbons for the purchases of diesel used in farming and cattle from EUR 78.71 to EUR 63.71 / 1 000 litres.	Rate increase	Announcement: 4-4-2017 Legislation: 28-06-2017 In force from: 01-07-2016
Recurrent taxes on (net) wealth		
Extended to 2017.	Neutral	Announcement: 02-12-2016 Legislation: 03-12-2016 In force from: 01-01-2017

France

Description of measure	Change	Date
Personal income tax: Earned income		
Introduction of an income tax reduction for low earners: the amount of income tax is reduced by 20 % for taxpayers whose income is below a certain threshold (e.g. EUR 18 500 for a single person). The income tax is unchanged for taxpayers earning more than another threshold (e.g. EUR 20 500 for a single person). A smoothing rule applies for taxpayers between the two thresholds so as to avoid a discontinuity in the tax schedule.	Rate decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Increase in the rate of the Contribution sociale généralisée (compensated by a decrease in employees' social contributions).	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Indirect effect on income tax of the increase of the CSG and decrease of SSC employee.	Neutral	Legislation: 30-12-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Increase of "CICE" rate (from 6 % to 7 %) : PIT part	Rate decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Reduction of CICE rate (from 7 % to 6 %) and then next year removal of CICE : PIT part	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Personal income tax: Savings		
Implementation of a dual income tax system through the introduction of a flat rate tax on capital income (interests, dividends, capital gains).	Rate decrease	Legislation: 30-12-2017 In force from: 01-01-2018
Social security contributions: Employee		
Decrease in the rate of employees' social contributions (compensated by an increase Contribution sociale généralisée).	Rate decrease	Legislation: 30-12-2017 In force from: 01-01-2018
Social security contributions: Employer		
Decrease in social contributions (compensated by the CICE removal).	Rate decrease	Legislation: 30-12-2017 In force from: 01-01-2018
Taxes on payroll and workforce		
Implementation of a tax credit on the payroll tax (CITS - crédit d'impôt sur la taxe sur les salaires).	Rate decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Corporate income tax		
Increase of the CICE rate (from 6 % to 7 %).	Rate decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Decrease of the CIT rate (from 33 1/3 % to 25 %).	Rate decrease	Legislation: 29-12-2016 In force from: 01-01-2017
Reduction of the CICE rate (from 7 % to 6 %) and then next year suppression of CICE.	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Increase in corporate income tax : CIT base widening resulting from the decrease of SSCs.	Base increase	Legislation: 30-12-2017 In force from: 15-12-2018
Removal of the "3 % dividend" tax.	Rate decrease	Legislation: 30-12-2017 In force from: 01-01-2018
Introduction of an exceptional contribution on the CIT.	Rate increase	Legislation: 01-12-2017 In force from: 31-12-2017
Environmentally-related taxes		
Harmonisation of taxation of diesel and petrol.	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Increase of the carbon component within the TICPE.	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Impact on TICGN of the energy taxation.	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Health-related taxes		
Increase of taxes on tobacco.	Rate increase	Legislation: 30-12-2017 In force from: 01-01-2018
Transaction taxes (movable and immovable property)		
Increase in the rate of the tax on financial transaction (0.2 % to 0.3 %) (2017) and enlargement to intra-day transactions (2018).	Rate increase; base increase	Legislation: 29-12-2016 In force from: 01-01-2017
Recurrent taxes on immovable property (business and residential)		
Removal of the Taxe d'habitation for 80 % of French taxpayers.	Rate decrease	Legislation: 30-12-2017 In force from: 01-01-2018
Introduction of the new tax on real estate wealth (along with the removal of the wealth tax).	New tax	Legislation: 30-12-2017 In force from: 01-01-2018
Recurrent taxes on (net) wealth		
Removal of the wealth tax (along with the introduction of the new tax on real estate wealth).	Rate decrease; base decrease	Legislation: 30-12-2017 In force from: 01-01-2018

Croatia

Description of measure	Change	Date
Personal income tax: Earned income		
Determining the amount of the base for the personal allowance in relation to the net minimum wage (salary).	Neutral	Legislation: 09-12-2016 In force from: 01-01-2017
Reducing tax rates and simplify tax bracket. For income from employment (salary): tax rate of 24 % applied to the monthly tax base up to the amount of HRK 17 500, and a rate of 36 % is applied to the monthly tax base above HRK 17 500.	Rate decrease; base decrease	Legislation: 09-12-2016 In force from: 01-01-2017
Reducing tax rates and simplify tax bracket. For employment income (pensions) - monthly advance payment and employment income (salary) for taxpayers in the area of Local Government of first group of development and the City of Vukovar: tax rate of 24 % is applied to the monthly tax base up to the amount of HRK 17 500, and a rate of 36 % to the monthly tax base above HRK 17 500 but reduced by 50% on a monthly basis.	Rate decrease	Legislation: 09-12-2016 In force from: 01-01-2017
Determination of income as yearly income and final income.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Determining the amount of the basic personal allowance.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Legislative changes for taxpayers who are performing independent activities.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
A new way of delivering tax card to employers and registration of data changes on the tax card.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Extension of deadlines for the income tax payment and reporting for certain categories of taxpayers.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Suspension of possibility for income tax payment in the country in situations where there is no application of an international treaty.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Taxpayer threshold for determination of income and income tax in a lump sum is increased from HRK 230 000 to HRK 300 000.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Taxpayer who earns income derived from activities: renting of flats, rooms and beds to travellers and tourists and organizing camps, but is not on that basis a taxpayer of value added tax, income and personal income tax shall be determined in a lump sum, regardless of whether at the same time the taxpayer performs an independent activity and is on that basis in the VAT system.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
A non-resident taxpayer who is registered to pay VAT, but whose value of deliveries in the previous calendar year did not exceed the amount prescribed for the obligatory entry in the VAT system, and who fulfils the conditions for determining the lump-sum income tax and the conditions under special regulations, may determine and pay income tax as a lump sum.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
Taxpayers performing independent activities of catering and / or trade and / or taxpayers performing independent activities, can pay a lump-sum tax from 1st January 2017, if they fulfil general conditions for the payment of lump sum tax.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
For income earned abroad, where there is no obligation to pay income tax during the year in Croatia, there will no longer be the obligation for submission of the monthly form, but there will be an annual reporting obligation on receipts and tax paid abroad.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
The amount of advance income tax derived from foreign pensions will not be changed if there has been no increase in pensions above 20 %.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Social security contributions: Employee		
Decrease of the rate of contributions for pension insurance I pillar from 20 % respectively 15 % to 10 % respectively 7.5 % for some categories, the rate of contributions for pension insurance II pillar from 5 % to 2.5 % and the rate of contributions for obligatory health insurance from 15 % to 7.5 % for some categories.	Rate decrease	Legislation: 09-12-2016 In force from: 01-01-2017
The lowest monthly base for social contributions is adjusted to the minimum wage. The coefficient for the calculation of the minimum monthly base for calculating contributions increased from 0.35 to 0.38.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Abolition of the exception from liability of obligatory social contributions prescribed for fees for supplied copyright and/or related rights.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Social security contributions: Employer		
Prescribing the minimum base for calculating contributions to board members of the companies.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Corporate income tax		
Reducing the basic tax rate from 20 % to 18 %, and for taxpayers with annual incomes up to HRK 3 million, tax rates is reduced to the rate of 12 %.	Rate decrease	Legislation: 09-12-2016 In force from: 01-01-2017
The abolition of tax relief for reinvested profit.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Changes in tax benefits for assisted areas and the City of Vukovar.	Rate increase	Legislation: 09-12-2016 In force from: 01-01-2017
Cash principle for small taxpayers with annual revenues less than HRK 3 million.	Neutral	Legislation: 09-12-2016 In force from: 01-01-2017
Write-offs of receivables. Simplifies the process of debt write-off in the case of the debt of small value, and in cases where the certain measures were taken for the collection and where the impossibility of collection is determined.	Neutral	Legislation: 09-12-2016 In force from: 01-01-2017
Write-offs of NPLs (Non-performing loans) in credit institutions.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Introduction of the possibility of signing the previous agreement on transfer prices which, when it comes to multinational companies, gives a special tax for legal certainty.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
The amount of non-deductible expenses arising from representation and cost of passenger cars are equal and are determined at the amount of 50%. So far the tax deductible expense for representation amounted 30%, and for passenger cars amounted 70%.	Neutral	Legislation: 09-12-2016 In force from: 1-1-2017 (representation) 1-1-2018 (personal vehicles)
The lump sum for the non-profit sector in the economic activities. Option provided under condition that non-profit organization generate annual revenues arising from economic activity to a prescribed threshold for entry into the VAT system.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Value-added tax		
Reduced VAT rate of 13 % applies additionally to car seats for children, electric energy, public service of collecting communal waste, urns and coffins, seedlings, seeds, fertilizers, pesticides, and other agro-chemical products and animal food except food for pets. Reduced VAT rate is no longer applied for food preparation services and food services in restaurant facilities and on preparing and serving non-alcoholic beverages, wine and beer in these facilities, and also on supplies of white sugar which is marketed in crystalline form.	Rate decrease; base decrease	Legislation: 09-12-2016 In force from: 01-01-2017
Other excise duties		
Introduced new tax status - "Small distilleries".	Rate decrease	Legislation: 09-12-2016 In force from: 01-01-2017
New method of calculation.	Neutral	Legislation: 09-12-2016 In force from: 01-01-2017
New Ordinance on special tax on coffee and non-alcoholic beverages - Improvement of the existing system	Neutral	Legislation: 04-11-2016 In force from: 01-01-2017
New Ordinance on special tax on motor vehicles - Improvement of the existing system	Neutral	Legislation: 02-01-2017 In force from: 03-01-2017
The method of calculation and the height of the determinants for the calculation of special tax on motor vehicles are no longer regulated by the Act but by the Regulation. The special tax on the acquisition of used motor vehicles in the Republic of Croatia has been replaced by an administrative fee.	Neutral	Legislation: 20-12-2017 In force from: 01-01-2018
New Ordinance on excise duties.	Neutral	Legislation: 02-01-2017 In force from: 03-01-2017
New excise duties tax on e-liquid, heated tobacco products and new tobacco products.	New tax	Legislation: 09-12-2016 In force from: 01-01-2017
Transaction taxes (movable and immovable property)		
Decrease of tax rate for real estate transfer tax from 5 % to 4 %.	Rate decrease	Legislation: 09-12-2016 In force from: 01-01-2017
Suppression of tax exemptions for buying real estate with which person solves their own housing need.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
Exemptions for closest relatives based on lifetime support contracts, and for concluded contracts of dissolution of co-ownership and common ownership division.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Tax exemptions extended by all real estate entries in PLC or INC equity, not only stated capital but to all status changes.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Changes in exemptions by inheritance, donations and other acquisitions without compensation.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Pursuant the General Tax Law, legal rights in tax procedures are now equalized for married and unmarried couples, as well as for homosexual communities and apply to all taxpayers.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Revenue gained through this tax now completely belongs to municipalities' and cities' budget.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Recurrent taxes on immovable property (business and residential)		
In respect of property tax, subject of taxation will be the same as it was for utility fee, but will be extended to other real estates and the construction land.	Base increase	Legislation: 09-12-2016 In force from: 01-01-2017
Amount of property tax will be calculated as correction of utility fee with two new factors: the age coefficient and the condition coefficient of the real estate.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
From 1st January 2017, municipalities and cities are obliged for defining and updating information on new coefficients that will be necessary to calculate the property tax.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Other taxes		
As from 1st January 2017 the Croatian Tax Administration is no longer the legal authority in charge of taxes on motor vehicles. Regional authorities in counties take over as legal authorities, exercising their functions through vehicle inspection stations.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
As from 1st January 2017, tax on motor vehicles is charged at registration to vehicle owner, or in case of leasing, vehicle user.	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Other measures		
Cash payment fiscalization: exemption of fiscalization for passenger transport abolished, except for ticket sales in air, railway, maritime and local transport.	N/A	Legislation: 09-12-2016 In force from: 01-07-2017
Expression "small taxpayer subject to fiscalization" was abolished as to harmonize with changes in the lump-sum income taxation. From 1st July 2017 taxpayers subjected to fiscalization are bound to issue invoices through electronic cash registers. Fiscalization through the books applies only in areas with no Internet connection and the breakdown of collection devices.	N/A	Legislation: 09-12-2016 In force from: 01-07-2017
Introducing misdemeanour responsibility for software producer/maintenance company.	N/A	Legislation: 09-12-2016 In force from: 01-07-2017
As from 1st July 2017 delivery of information on business premises shall be communicated through e-Porezna or Tax Administration.	N/A	Legislation: 09-12-2016 In force from: 01-07-2017

Description of measure	Change	Date
Adjustment with the EU Directive on services: enabling electronic payment of administrative fees, exceptionally up to HRK 100 in stamps or via ePristojbe system after its establishment (under jurisdiction of the Ministry of Administration).	N/A	Legislation: 09-12-2016 In force from: 01-01-2017
Tariff administrative fees are prescribed by the government regulation.	N/A	Legislation: 09-12-2016 In force from: 01-02-2017

Italy

Description of measure	Change	Date
Personal income tax: Earned income		
Individuals newly resident (not resident in Italy during the previous 9 years), as concerns foreign income, can opt for a lump sum substitute tax of EUR 100 000 for every tax period.	Neutral	Legislation: 11-12-2016 In force from: 01-01-2017
As regards the EUR 960 payable tax credit for employees, the threshold to be entitled to the full amount has been increased from EUR 24 000 to EUR 24 600. The tax credit decreases to 0 at EUR 26 600, (previously EUR 26 000).	Base decrease	Legislation: 27-12-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
The substitute 24 % proportional tax rate (named IRI) equal to the CIT rate, has been postponed to 2018. The tax regime is applied to SMEs, partnerships, sole proprietorships, self-employed workers, artisans and professionals on re-invested income. Otherwise, income withdrawn is taxed at ordinary PIT rates.	New tax	Legislation: 27-12-2017 In force from: 01-01-2018
Personal income tax: Savings		
As regards capital income, dividends and capital gains of shares of individuals are taxed at 26 % substitute tax rate instead of PIT ordinary taxation regardless the status of qualified shareholdings or not. The measure takes effect as from 2018 for dividends and 2019 for capital gains.	Base decrease	Legislation: 27-12-2017 In force from: 01-01-2018
Social security contributions: Employer		
50 % employers' social contribution exemption provided up to a maximum of EUR 3 000 for 3 years. The allowance concerns new employees under 30 years old (35 for 2018) hired with permanent contracts.	Base decrease	Legislation: 27-12-2017 In force from: 01-01-2018
Employers' social contribution full exemption up to a maximum of EUR 8 060 for 2018, as regards new employees hired with permanent contracts in southern regions.	Base decrease	Legislation: 27-12-2017 In force from: 01-01-2018
Corporate income tax		
The CIT statutory standard rate decreased from 27.5 % to 24 %, as from 01/01/2017.	Rate decrease	Legislation: 28-12-2015 In force from: 01-01-2017
The interest deduction limitation for firms (30 % of EBITDA) has been modified. Foreign dividends are now excluded from the EBITDA computation, with the effect of potentially decreasing interests paid deductible.	Base increase	Legislation: 27-12-2017 In force from: 01-01-2018
Value-added tax		
Regarding VAT operations, the measure foresees several periodic data transmissions in the tax period according to an established timetable. The Revenue Agency can perform its check activity on the basis of this information regardless of VAT returns submission.	Base increase	Legislation: 22-10-2016 In force from: 01-01-2017
As from 1 January 2019, a standardized system of mandatory electronic invoicing is introduced. The measure is applied partially as from July 2018.	Neutral	Legislation: 27-12-2017 In force from: 01-01-2018
Other taxes		
Decrease of ACE notional return rate from 4.75 % to 1.6 % in 2017 and 1.5 % in 2018. The reduction was implemented by the Budget law for 2017 and by the Law Decree 50/2017.	Rate decrease	Legislation: 24-04-2017 In force from: 01-01-2017
RD Tax Credit extended up to 2020. As from 2017, the tax credit amount was increased from 25 % to 50 % of the costs increase compared to the average of the three previous tax periods RD investments. Finally the annual allowance threshold was increased from EUR 5 million to EUR 20 million.	Base decrease	Legislation: 11-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
The 40 % increase of deductible investment costs of new tangible assets was extended up to 30th June 2018 and expanded to include certain intangible assets (software). Moreover, a 150 % increase in investment costs concerning innovative instruments was approved.	Base decrease	Legislation: 11-12-2016 In force from: 01-01-2017
The increase of deductible investment costs of new tangible assets has been extended to 30 June 2019 and reduced to 30 %. The increase of deductible investment costs intangible assets (software), fixed at 40 %, has been extended to 31 December 2019. Moreover, the 150 % increase of investment costs concerning innovative instruments has been extended to 31 December 2019.	Base decrease	Legislation: 27-12-2017 In force from: 01-01-2018
A Levy on Digital Transactions has been introduced and will be in force as of January 2019. It is a transaction-based tax on the consideration paid for digital services. It will be applied to B2B electronically supplied services to Italian residents and permanent establishments in Italy of non-resident enterprises. A forthcoming decree will clarify the scope by establishing a list of transactions covered. The tax will be due by the supplier of the service, irrespective of its residence and/or location. No tax is due by suppliers that conclude no more than 3 000 covered transactions in a calendar year (minimum activity threshold).	New tax	Legislation: 27-12-2017 In force from: 01-01-2019

Cyprus

Description of measure	Change	Date
Personal income tax: Earned income		
Through Income Tax amending law 135(I)/2016 criteria are specified so that payments to innovative small and medium enterprises can be deducted from taxable income. Any existing provisions are abolished (per law abolished benefits were given when there was a purchase of shares, but with the new law payment scope extended but benefits are given only to individuals).	Base decrease	Announcement: 23-12-2016 Legislation: 23-12-2016 In force from: 01-01-2017
To facilitate collection of taxes, law 4(I)/2017 was passed and published on 3.2.2017 with effect as from 2/7/2017. The Law allows a certain procedure for the settlement of taxes. With this law under certain conditions interest and penalties up to 95 % on taxes due for years of assessment up to 2015 can be written off. It covers all taxes collected by the Tax Department.	Neutral	Announcement: 03-02-2017 Legislation: 03-02-2017 In force from: 02-07-2017
Administrative decision - Introduction of internet banking and registration and selection of no. of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017
According to the Assessment and Collection of Taxes Law 97(I)/2017, all individuals with tax obligations will be obliged to submit their tax returns online as from tax assessment year 2017 and onwards.	Neutral	Announcement: 14-07-2017 Legislation: 14-07-2017 In force from: 14-07-2017
According to Law 97(I)/2017, coming into effect from 14.7.2017, various additional administrative penalties are imposed for non-compliance.	Neutral	Announcement: 14-07-2017 Legislation: 14-07-2017 In force from: 14-07-2017
Personal income tax: Unincorporated businesses/Self employment income		
Law 165(I)/2017 extends the provision for higher capital allowances on assets acquired as from 2012, to years 2017 and 2018. Capital allowances on plant and machinery 20 %, industrial and hotel buildings 7 % .Same law allows higher capital allowances for buildings acquired in 2017 and 2018 for farming and agriculture production.	Rate increase; base decrease	Announcement: 24-11-2017 Legislation: 24-11-2017 In force from: 24-11-2017
Administrative decision - Introduction of internet banking and registration and selection of number of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017
According to the Assessment and Collection of Taxes Law 97(I)/2017, all individuals with tax obligations will be obliged to submit their tax returns online as from tax assessment year 2017 and onwards.	Neutral	Announcement: 14-07-2017 Legislation: 14-07-2017 In force from: 14-07-2017
According to Law 97(I)/2017, coming into effect from 14.7.2017, various additional administrative penalties are imposed for non-compliance.	Neutral	Announcement: 14-07-2017 Legislation: 14-07-2017 In force from: 14-07-2017
Social security contributions: Employer		
On 2/6/2017 the Social Insurance (Amending) Law (52(I)/2017) was enacted, introducing definitions of "undeclared work" and "undeclared earnings". Administrative fines are imposed on employers and self employed persons for violation of the Law 52(I)/2017.	Neutral	Announcement: 02-06-2017 Legislation: 02-06-2017 In force from: 02-06-2017
Taxes on payroll and workforce		
Administrative decision - Introduction of internet banking and registration and selection of number of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017

Description of measure	Change	Date
Corporate income tax		
To facilitate collection of taxes, law 4(I)/2017 was passed and published on 3.2.2017 with effect as from 2/7/2017. The Law allows a certain procedure for the settlement of taxes. With this law under certain conditions interest and penalties up to 95 % on taxes due for years of assessment up to 2015 can be written off. It covers all taxes collected by the Tax Department.	Neutral	Announcement: 03-02-2017 Legislation: 03-02-2017 In force from: 02-07-2017
Law 165(I)/2017 extends the provision for higher capital allowances on assets acquired as from 2012, to years 2017 and 2018. Capital allowances on plant and machinery 20 %, industrial and hotel buildings 7 % .Same law allows higher capital allowances for buildings acquired in 2017 and 2018 for farming and agriculture production.	Rate increase; base decrease	Announcement: 24-11-2017 Legislation: 24-11-2017 In force from: 24-11-2017
Administrative decision - Introduction of internet banking and registration and selection of number of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017
According to Law 97(I)/2017, coming into effect from 14.7.2017, various additional administrative penalties are imposed for non-compliance.	Neutral	Announcement: 14-07-2017 Legislation: 14-07-2017 In force from: 14-07-2017
Value-added tax		
Regulation (367/2016) for the compulsory online submission of VAT returns. Through an administrative decision, farmers and urban taxi drivers under special regime are exempted from compulsory on-line submission.	Neutral	Announcement: 16-12-2016 Legislation: 16-12-2016 In force from: 02-05-2017
To facilitate collection of taxes, law 4(I)/2017 was passed and published on 3.2.2017 with effect as from 2/7/2017. The Law allows a certain procedure for the settlement of taxes. With this law under certain conditions interest and penalties up to 95 % on taxes due for years of assessment up to 2015 can be written off. It covers all taxes collected by the Tax Department.	Neutral	Announcement: 03-02-2017 Legislation: 03-02-2017 In force from: 02-07-2017
With Law 86(I)/2017, with effect as from 7/7/2017, procedures for objection and appeals on VAT assessments have been simplified. Objections are only made to the Commissioner (a lot of objections were made to the Minister before thus causing delays). Appeals can be made to the Tax Tribunal meaning that the essence of matter in dispute can be examined and decisions can be quicker. Articles 50-54A of consolidated Law.	Neutral	Announcement: 07-07-2017 Legislation: 03-02-2017 In force from: 02-07-2017
Regulation 367/2016 for the compulsory online submission of VAT returns. With an administrative decision the farmers and city taxis under special regime are exempted from the compulsory on-line submission.	Neutral	Announcement: 16-12-2016 Legislation: 16-12-2016 In force from: 02-05-2017
Per article 3b of amending Law 157(I)/2017 published on 13/11/2017, as from 2/1/2018, VAT is imposed on land sold by a business that can be developed. The amendment was made to be in line with EU acquis.	Rate increase; base increase	Announcement: 13-11-2017 Legislation: 13-11-2017 In force from: 02-01-2018
Per article 3a of amending Law 157(I)/2017, VAT is imposed on rents paid by a person subject to VAT, for buildings rented for business purposes, excluding any buildings used as residence. This applies for agreements commencing as from 13/11/2017. Per law the owner can apply for the exemption of imposition of VAT on rents. Note that VAT on rents can be claimed back as a deduction.	Rate increase; base increase	Announcement: 13-11-2017 Legislation: 13-11-2017 In force from: 13-11-2017
Administrative decision - Compulsory on line registration to Taxisnet for submission of VAT returns(Taxisnet is the department's system for electronic submission)	Neutral	Announcement: 12-04-2017 In force from: 12-04-2017

Description of measure	Change	Date
Administrative decision - Introduction of internet banking. Payments through internet banking, with 4 banks in Cyprus, of VAT and instalments agreed under law 4(1)/2017. Instalments agreed under above law can only be paid through internet banking.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017
Administrative decision - Registration and selection of number of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 21-07-2017 In force from: 01-08-2017
Other taxes		
Article 3 of amending law abolishes immovable property tax law as from 1.1.2017.	Rate decrease; base decrease	Announcement: 25-07-2016 Legislation: 25.07.2016 In force from: 01.01.2017
The Minister of Finance decided not to extend the application of Law on the Special Contribution. Therefore the Law ended on 31.12.2016.	Rate decrease; base decrease	Announcement: 31-12-2016 In force from: 01.01.2017
To facilitate collection of taxes, law 4(I)/2017 was passed and published on 3.2.2017 with effect as from 2/7/2017. The Law allows a procedure for the settlement of taxes. With this law under certain conditions interest and penalties up to 95 % on taxes due for years of assessment up to 2015 can be written off. It covers all taxes collected by the Tax Department.	Neutral	Announcement: 03-02-2017 Legislation: 03-02-2017 In force from: 02-07-2017
Immovable Property Tax was eliminated. Article 3 of amending law 86(I)/2016.	Rate decrease; base decrease	Announcement: 25-07-2016 Legislation: 25-07-2016 In force from: 01-01-2017
Administrative decision - Introduction of internet banking and registration and selection of number of instalments for settlement of taxes under Law 4(1)/2017 above is done electronically through government website Ariadni.	Neutral	Announcement: 22-09-2017 In force from: 22-09-2017

Latvia

Description of measure	Change	Date
Personal income tax: Earned income		
Changes in the application of differential non-taxable minimum.	Base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Increase in allowance for dependants up to EUR 250.	Base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Introduction of progressive PIT rates.	Rate increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Introduction of PIT allowance for non-working spouse.	Base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-07-2018
Increase of the PIT non-taxable minimum for pensioners.	Base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Changes in the PIT rates on capital and capital gains.	Rate increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Income from gambling winnings exceeding EUR 3 000 taxed at 20 % PIT rate (exemption - national lottery).	Rate increase; base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Limit of eligible expenses for education, medical and donations set at EUR 600 per year (not more than 50 % of taxable amount). Limit for private pension funds and life insurance - EUR 4 000 per year.	Neutral	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Corporate income tax		
Restriction of deduction of losses for CIT (reduction of the corporate income tax exemption for the losses carried forward by introducing a limitation of 75 % from taxable income).	Base increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Value-added tax		
Introduction of a risk management system in the Company Register.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Introduction of VAT reverse charge mechanism to supply of gold and precious metals.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Combatting and limitation of distribution of the illegal audio-visual market.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017

Description of measure	Change	Date
Improvement of the conditions of used vehicles' registration.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Reduction of VAT registration threshold from EUR 50 000 to EUR 40 000.	Base increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Reduction of the threshold for disclosing individual invoices from EUR 1 430 to EUR 150.	Base increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Expansion of the reverse VAT charge mechanism to supplies of building materials and household appliances and introduction of the reverse VAT charge mechanism to supplies of metal products.	Neutral	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Introduction of the reduced VAT rate of 5 % to vegetables, fruits and berries that are specific to Latvia.	Rate decrease	Announcement: 06-12-2017 Legislation: 22-11-2017 In force from: 01-01-2018
Environmentally-related taxes		
Increase of the tax rates on natural resources and broadening of the tax base.	Rate increase; base increase	Announcement: 10-12-2016, 29-12-2016 Legislation: 23-11-2016, 15-12-2016 In force from: 01-01-2017
Other excise duties		
Increase of excise duty on cigarettes.	Rate increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-07-2017
Increase of excise duty on cigarillos and cigars.	Rate increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Other taxes		
Abolition of car and motorcycle tax.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Changes in vehicle exploitation tax rates.	Rate increase; base increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Micro-enterprise tax reform (tax rate 12 % for turnover up to EUR 7 000 and 15 % for the part exceeding EUR 7 000).	Rate increase	Announcement: 30-12-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Setting the payment for dividends (for state owned enterprises) at 85 % in year 2017 (calculated of profit of 2016), 80 % in year 2018 (calculated of profit of 2017), 70 % in year 2019 (calculated of profit of 2018). Changes in profit forecasts.	Rate increase	Announcement: 10-12-2016 Legislation: 24-11-2016 In force from: 01-01-2017

Description of measure	Change	Date
Changes in road user fee - cancellation of several exemptions, addition of new roads to applicable base and other measures.	Base increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Cancellation of electricity tax exemptions: - for electricity which is obtained from renewable energy resources, in hydroelectric power stations and in cogeneration electric stations; - for electricity which is used for electricity generation and for the generation of heat energy and electricity in cogeneration.	Base increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Increase of the minimal monthly wage from EUR 370 to EUR 380 as of 1 January 2017.	Base increase	Announcement: 27-10-2016 Legislation: 25-10-2016 In force from: 01-01-2017
The introduction of non-refundable tax prepayment in the taxi industry (EUR 130 per month for each taxi).	Base increase	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Introduction of PIT allowance for covering catering expenses if collective bargaining agreement is concluded.	Base decrease	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Introduction of joint responsibility to general contractor or subcontractor in the construction industry.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Introduction of a quick, easy and effective solution for the tax collection enforcement to the debtors' bank accounts.	Neutral	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Introduction of a new tax regime for start-ups.	N/A	Announcement: 10-12-2016 Legislation: 23-11-2016 In force from: 01-01-2017
Gambling tax increased by 30 percent for roulette, card and dice games and slot machines.	Rate increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Excise duty increase on alcoholic beverages and beer in 2018, 2019 and 2020 (as of 1 March each year).	Rate increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-03-2018
Excise duty increase on cigarettes as of 1 July 2018 and 1 July 2019. Additional excise duty increase on cigars and cigarillos as of 1 January 2020. Additional excise duty increase on smoking tobacco as of 1 January 2020.	Rate increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-07-2018
Excise duty increase on oil products used as fuel as of 1 January 2018 and 1 January 2020.	Rate increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Reduction of the shadow economy - Administration and recovery improvement.	Neutral	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018

Description of measure	Change	Date
Introduction of tax support measure -possibility to pay tax debts (late charge and fine not applied) without additional criteria.	Neutral	Announcement: 08-08-2017 Legislation: 27-07-2017 In force from: 22-08-2017
Introduction of 0 % CIT rate for reinvested profits, including determination of transitional period for dividends of non-distributed profits of previous years and determination of the 0 % PIT rate for dividends.	Base decrease	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Restriction of micro-enterprise turnover limit to EUR 40 000 per year.	N/A	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Social insurance contributions rate increased by 1 percentage point for healthcare financing.	Rate increase	Announcement: 08-08-2017 Legislation: 27-07-2017 In force from: 01-01-2018
Solidarity tax reform - cancellation of solidarity tax in central government budget and introduction of 13.59 % solidarity payment in SSC budget.	Neutral	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Social insurance contributions applied to royalty income.	Rate increase; base increase	Announcement: 08-08-2017 Legislation: 27-07-2017 In force from: 01-01-2018
Introduction of the measures against the shadow economy in the construction industry.	Base increase	Announcement: 08-08-2017 Legislation: 27-07-2018 In force from: 01-01-2018
Increase of the minimal monthly wage from EUR 380 to EUR 430 per month.	Base increase	Announcement: 31-08-2017 Legislation: 29-08-2017 In force from: 01-01-2018
Equitation of PIT rates for performers of economic activity.	Base increase	Announcement: 08-08-2017 Legislation: 28-07-2017 In force from: 01-01-2018
Determination of the minimum dividends proportion of profit for capital companies.	Rate increase	Announcement: 06-12-2017 Legislation: 23-11-2017 In force from: 01-01-2018
Changes in the gambling tax revenue allocation between state and local government budgets (regarding gambling tax on interactive games), 100 % of revenue allocated to the state budget (instead of 75 %).	Neutral	Announcement: 06-12-2017 Legislation: 22-11-2017 In force from: 01-01-2018

Lithuania

Description of measure	Change	Date
Personal income tax: Earned income		
Increases in: non-taxable allowance (maximum) from EUR 200 to 310; Non-taxable allowance for disabled people: minimum disability - from EUR 210 to 320; maximum disability - from EUR 270 to 380; Non-taxable amount for children from EUR 120 to 200.	Neutral	Legislation: 13-12-2016 In force from: 01-01-2017
Changed life insurance premiums and contributions to the third pillar pension funds deduction limitations: EUR 2 000 per year to pay life insurance premiums and contributions to the third pillar pension funds - the maximum amount that can be deducted from taxable income. The resident will be able to recover up to EUR 300.	Neutral	Legislation: 22-12-2016 In force from: 01-01-2017
Increases in: non-taxable allowance (NTA) from EUR 310 to EUR 380; and the threshold from which it is no longer applied (from EUR 1 000 to EUR 1 160); Non-taxable allowance for disabled people: minimum disability - from EUR 320 to EUR 390; maximum disability - from EUR 380 to EUR 450.	Base decrease	Legislation: 07-12-2017 In force from: 01-01-2018
Additional non-taxable allowance for children, EUR 200 per child, abolished.	Base increase	Legislation: 07-12-2017 In force from: 01-01-2018
Increased minimum monthly wage (MMW) from EUR 380 to EUR 400.	Base increase	Legislation: 11-10-2017 In force from: 01-01-2018
Increase in the amount of basic salary of state politicians, judges, state officials, civil servants and workers of state and municipal budget institutions	Base increase	Legislation: 07-12-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Shifting from two PIT rates of 5 % and 15 % for self-employed to one PIT rate of 15 % and introduction of a tax credit system.	Rate increase	Legislation: 05-12-2017 In force from: 01-01-2018
Social security contributions: Employer		
Social Security Insurance contribution paid by employers decreased by 1 percentage point from 1 July 2017 - Social Model reform.	Rate decrease	Legislation: 22-12-2016 In force from: 01-07-2017
Unemployment insurance premium rate paid by employers increased by 0.5 percentage points from 1 July 2017 - Social Model Reform.	Rate increase	Legislation: 22-12-2016 In force from: 01-07-2017
Contribution to the new Long-term Employment Benefits Fund paid by employers, rate of 0.5 % from 1 July 2017 - Social Model Reform.	Rate increase	Legislation: 22-12-2016 In force from: 01-07-2017
Increased minimum monthly wage (MMW) from EUR 380 to EUR 400.	Base increase	Legislation: 11-10-2017 In force from: 01-01-2018
Increase in the amount of basic salary of state politicians, judges, state officials, civil servants and workers of state and municipal budget institutions	Base increase	Legislation: 07-12-2017 In force from: 01-01-2018
Introduction of the "floor" of the size of MMW for employers' social insurance contributions (the largest share of SSC).	Base increase	Legislation: 05-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Social security contributions: Self-employed		
The expansion of social insurance coverage for persons engaged in individual or individual agricultural activities, owners of individual enterprises, members of small partnerships, general partners of general partnerships and limited partnerships, persons holding business certificates.	Base increase	Legislation: 29-06-2016 In force from: 01-01-2017
The base of social insurance contributions for all royalties, for sports activities and performing activities is income received from sports activities, performing activities and from royalties. The base of social insurance contributions for persons receiving a share of profits or remuneration for their activities with a supervisory board or a management board or a loan committee is their received income.	Base increase	Legislation: 29-06-2016 In force from: 01-01-2017
Introduction of 1 year social insurance contribution holiday for the first time self-employed.	Rate decrease	Legislation: 05-12-2017 In force from: 01-01-2018
Unification of the "ceiling" of SSC tax base for different forms of self-employment, set at 28 average salaries per year.	Base increase	Legislation: 05-12-2017 In force from: 01-01-2018
Corporate income tax		
Introduction of a 1 year corporate income tax holiday for new small businesses (up to 10 employees and up to EUR 300 000 income).	Rate decrease	Legislation: 07-12-2017 In force from: 01-01-2018
Expansion of the possibility to reduce taxable profits by the respective expenses up to 100 % instead of 50 % and introduction of a reduced 5 % CIT rate for profits from commercialization of R&D inventions.	Rate decrease; base decrease	Legislation: 07-12-2017 In force from: 01-01-2018
Increase in the CIT rate for companies engaged in agricultural activities (excluding cooperates) from 5 % to 10 % in 2018 and from 10 % to 15 % in 2019.	Rate increase	Legislation: 07-12-2017 In force from: 01-01-2018
To account service fees for services provided by seaports and air navigation services as well as the income from rent of the seaport land as taxable income.	Base increase	Legislation: 07-12-2017 In force from: 01-01-2018
Increasing the CIT rate for companies with social enterprise status from 0 % to 15 %.	Rate increase	Legislation: 07-12-2017 In force from: 01-01-2018
Value-added tax		
5 % reduced rate for non-compensated prescribed medicines, whose outer package's taxable value is greater than EUR 300.	Rate decrease	Legislation: 08-11-2016 In force from: 01-01-2017
A standard VAT rate to district heating for residents (compared to a reduced rate of 9 %) was temporarily applied during non-heating season between 01-06-2017 and 30-09-2017.	Rate increase	Legislation: 20-12-2016 In force from: 01-06-2017
Introduction of a 5 % reduced rate for non-compensated prescription medicines	Rate decrease	Legislation: 12-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
Increase in the excise duty rate for diesel used in agricultural activities from EUR 21 to EUR 56 per 1 000 litres.	Rate increase	Legislation: 05-12-2017 In force from: 01-01-2018
Increase in the excise duty rate for diesel of 5.1 % from EUR 330.17 to EUR 347 per 1 000 litres.	Rate increase	Legislation: 05-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Abolition of excise duty allowance for coal, coke and lignite, used by households and charitable organizations.	Rate increase	Legislation: 05-12-2017 In force from: 01-01-2018
Expansion of the allowance of excise duty for natural gas (including biogas) used as motor fuel to all motor vehicles (until 31-12-2017 only applied to public transport).	Base decrease	Legislation: 05-12-2017 In force from: 01-01-2018
Health-related taxes		
Increase in specific excise duty rate for cigarettes of 10.5 % from EUR 50.68 up to 56 per 1 000 cigarettes, the minimum excise duty rate increase of 5.9 % from EUR 85 up to 90 per 1 000 cigarettes. Excise duty rate for cigars and cigarillos increase of 11.7 % from EUR 29.54 to 33 per kg.	Rate increase	Legislation: 13-12-2016 In force from: 01-03-2017
Excise duty rate for beer increased of about 112 %; excise duty rates for wine and other fermented beverages and intermediate products increase of 92 % to 111 %; excise duty rate for ethyl alcohol increase of about 23 %.	Rate increase	Legislation: 22-12-2016 In force from: 01-03-2017
Increase in specific excise duty rate for cigarettes of 5.4 % from EUR 56 to EUR 59 per 1 000 cigarettes, the minimum excise duty rate increase of 6.7 % from EUR 90 to EUR 96 per 1 000 cigarettes from 1 March 2018. Excise duty rate for cigars and cigarillos increase of 12.1 % from EUR 33 to 37 per kg.	Rate increase	Legislation: 05-12-2017 In force from: 01-03-2018
Increase in excise duty rate for smoking tobacco of 11.2 % from EUR 54.16 to EUR 60.24.	Rate increase	Legislation: 05-12-2017 In force from: 01-01-2018
Recurrent taxes on immovable property (business and residential)		
Introduction of progressive taxation for expensive non-commercial real estate of natural persons: taxable value up to EUR 220 000 - not taxed (for taxpayers with 3 or more children or a disabled child - up to EUR 286 000); taxable value between EUR 220 000 and EUR 300 000 - 0.5 % (for taxpayers with 3 or more children or a disabled child - between EUR 286 000 and EUR 390 000); taxable value between EUR 300 000 and EUR 500 000 - 1 %; (for taxpayers with 3 or more children or a disabled child - between EUR 390 000 and EUR 650 000); taxable value above EUR 500 000 - 2 % (for taxpayers with 3 or more children or a disabled child - above EUR 650 000).	Rate increase	Legislation: 02-12-2017 In force from: 01-01-2018

Luxembourg

Description of measure	Change	Date
Personal income tax: Earned income		
Modified tax table: Increase of the PIT rate by 1 % for taxable income between EUR 11 265 and EUR 20 625 and by 2 % for taxable income between EUR 20 625 and EUR 45 897. A 39 % rate is applied for income above EUR 45 897, a 40 % rate for income above EUR 100 002, a 41 % rate for income above EUR 150 000, and a 42 % rate for income above EUR 200 004. Change in the tax bracket width (currently at EUR 1 908). The width is reduced to EUR 1 872 between EUR 11 265 and EUR 20 625, the width is increased to EUR 1 944 between EUR 20 625 and EUR 100 002.	Rate decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Mortgage interest paid on an owner-occupied dwelling will be deductible up to EUR 2 000 in the first 5 years (compared to EUR 1 500 currently); up to EUR 1 500 in the 5 following years (compared to EUR 1 125 currently); and up to EUR 1 000 for the remaining term of the loan (compared to EUR 750 currently).	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The deemed rental income for owner-occupied dwellings will be set to zero.	Neutral	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The existing tax credit of EUR 300 for employees, self-employed people and pensioners will increase progressively until it is capped at EUR 600 per year for taxpayers earning between EUR 11 265 and EUR 40 000. For taxpayers earning between EUR 40 000 and EUR 80 000, the tax credit will decline progressively. Taxpayers earning more than EUR 80 000 will no longer benefit from the tax credit.	Neutral	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The existing tax credit of EUR 750 for single parents with children will be increased to EUR 1 500 per year for taxpayers earning up to EUR 35 000. For taxpayers earning between EUR 35 000 and EUR 105 000, the tax credit will decline progressively. For taxpayers earning more than EUR 105 000, the tax credit will remain at its current level of EUR 750.	Neutral	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The mono-parental tax credit is to be reduced by 50 % of the amount of the allowances from which the child benefits, in so far as they exceed the annual amount of EUR 2 208 or the monthly amount of EUR 184. The old limits were EUR 1 920 and EUR 160 respectively.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The rental income from social organisations, such as the national social accommodation agency, will be exempt up to 50 %.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The tax allowance granted for complementary pension schemes will be set at EUR 3 200 for all taxpayers. The past system with a progressive allowance ranging from EUR 1 500 to EUR 3 200 depending on the taxpayer's age is abolished.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The temporary budget balancing tax of 0.5 % will be abolished.	Rate decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The deductibility for consumer loans and for insurance and legal responsibility will be aggregated under one category and limited to EUR 672.	Base increase	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The deductibility for domestic costs will be increased from EUR 3 600 to EUR 5 400.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-

Description of measure	Change	Date
		2017
The current value of the meal vouchers will be increased from EUR 8.40 to EUR 10.80.	Neutral	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The allowance for extraordinary expenses for children not living in the household will be increased from EUR 3 480 to EUR 4 020.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Extension of the temporary measure consisting of taxing capital gains on dwellings or land at a quarter of the personal income tax rate (instead of half the income tax rate).	Rate decrease	Announcement: 15-12-2017 Legislation: 15-12-2017 In force from: 01-01-2018
Personal income tax: Savings		
Increase of the withholding tax on interest from 10 % to 20 %.	Rate increase	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The tax allowance for home purchase savings plans for young taxpayers (under 40 years old), will be doubled from EUR 672 to EUR 1 344.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Social security contributions: Employer		
Low decrease of the contribution rates of the Employers' Mutual insurance, an insurance against salary costs incurred as a result of the salary continuance in the case of illness that was introduced in 2009. The contribution rates are re-fixed every year according to the financial absenteeism rate of the employers. Employers are classified in one of the four classes according to their financial absenteeism rate. For 2017, the contribution rates are: 0.51 % for class1, 1.23 % for class 2, 1.83 % for class 3 and 2.92 % for class 4. The average rate is 1.95 % in 2017 compared to 2.00 % in 2016.	Rate decrease	Announcement: 23-12-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Corporate income tax		
Reduction of the CIT from 21 % to 19 % in 2017 and to 18 % in 2018. For companies with a taxable income not exceeding EUR 25 000, the CIT rate is set at 15 %. For taxable income ranging between EUR 25 000 and EUR 30 000, the CIT rate is set at EUR 3 750 plus 33 % (39 % for 2017) of the taxable income exceeding EUR 25 000. The CIT rate is set at 18 % (19 % for 2017), if taxable income exceeds EUR 30 000.	Rate decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
The minimum wealth tax on SOPARFI is increased from EUR 3 210 to EUR 4 815.	Rate increase	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Other corporate taxes		
Losses incurred from 2017 onwards can be carried forward for 17 years (no longer indefinitely).	Base increase	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Capital gains derived from the transmission of businesses can benefit, under certain conditions, from a tax deferral.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
The tax credit for investments is increased. The complementary tax credit for investments is increased from 12 % to 13 %. The global tax credit for investments is increased from 7 % to 8 %.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Investment tax credit now includes the purchase of software that has not been purchased from another group entity, and the purchase of new electric cars or hydrogen fuel cell cars.	Neutral	Announcement: 15-12-2017 Legislation: 15-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
A EUR 5 000 tax allowance will be granted for the purchase of an electric or hydrogen-powered car. The tax allowance is EUR 300 for the purchase of a pedelec or bicycle.	New tax	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
In case of a car lease granted by the employer to the employee, the taxation will be based on the valuation of the benefit in kind increased by a progressive rate depending on the amount of CO_2 emitted. The rate ranges from 0.5 % (0g CO_2/km) to 1.7 % (petrol cars with CO_2 emissions > 150g/km), respectively 1.8 % (diesel cars with CO_2 emissions > 150g/km).	Rate increase	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Tax allowance for sustainable mobility introduced in 2017 will be extended to rechargeable hybrid cars. A EUR 2 500 tax allowance will be granted for the purchase of such a vehicle for individual use, when CO_2 emissions do not exceed 50g/km.	Neutral	Announcement: 15-12-2017 Legislation: 15-12-2017 In force from: 01-01-2018
Other excise duties		
Tax adjustment (cigarettes and fine cut tobacco).	Rate increase; base increase	Announcement: 24-01-2017 Legislation: 24-01-2017 In force from: 01-02-2017
Estate duties/inheritances/gift taxes		
Exemption concerning inheritance taxes extended to all married persons or persons engaged in a partnership lasting for at least three years before death of one of the partners	Rate decrease; base decrease	Legislation: 20-12-2017 In force from: 01-01-2018
Other taxes		
In the context of agricultural income, the tax allowance for investment is fixed at 30 % for the first investment bracket up to EUR 250 000 and at 20 % for the second investment bracket exceeding EUR 250 000.	Base decrease	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017
Fight against tax fraud, for instance: higher administrative fines, enhancement of criminal investigation department, mandatory regular book-keeping for liberal professions, extension of the cooperation between the judicial authorities for the spontaneous exchange of tax related information	New tax	Announcement: 29-02-2016 Legislation: 23-12-2016 In force from: 01-01-2017

Hungary

Description of measure	Change	Date
Personal income tax: Unincorporated businesses/Self employment income		
In accordance with the CIT rate changes the PIT rate for private entrepreneurs decreased from 10 % to 9 %.	Rate decrease	Announcement: 20-12-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Social security contributions: Employer		
Employers' payroll tax decreased from 27 % to 22 % in 2017, then from 22 % to 19.5 % in 2018, additionally several conditional decreases have been placed in the law. If the employers increase the wages there would be four further 2 percentage point cuts. Additionally the tax benefits have been aligned with the new rates. The numbers contain the expected decrease as well (to 17.5 % from October 2019).	Rate decrease	Announcement: 22-11-2016; 10-10-2017 Legislation: 20-12-2016; 23-11-2017 In force from: 01-01-2017; 01-01-2018; (01-10-2019 expected)
In accordance with the SCT rate changes the health contribution (EHO) rate was cut to 22 percentage point in 2017 (from 27 percentage point), and to 19.5 percentage point from 2018. The numbers contain the expected decrease as well (to 17.5 % from October 2019). From 2017, change in the taxation of fringe benefits: The tax base correction 1.19 was lowered to 1.18 Under the yearly limit the tax burden is 15 % personal income tax and 14 % health contribution (EHO) on a base of 1.18, above the limit the health care tax will be higher in accordance with SCT rate on a base of 1.18. The health contribution (EHO) 6 % rate was abolished on interest, 15 % (EHO payable by agricultural smallholders) rate was merged into the 14 % rate, 20 % (EHO payable by private individuals providing private accommodation) was abolished and merged into PIT.	Rate decrease	Announcement: 20-12-2016; 28-10-2016; 10-10-2017 Legislation: 20-12-2016; 25-11-2016; 23-11-2017 In force from: 01-01-2017; 01-01-2018; (01-10-2019 expected)
From 2018 the health contribution (14 %) derived from over HUF 1 million rental income is abolished.	Base decrease	Announcement: 13-06-2017 Legislation: 19-06-2017 In force from: 01-01-2018
Social security contributions: Self-employed		
In case of Lump Sum Tax of Small Enterprises (KATA) the upper yearly revenue limit of the tax was increased from HUF 6 million to HUF 12 million from 2017. This measure allows more small firms to choose this simplified tax regime.	Rate decrease	Announcement: 28-10-2016 Legislation: 25-11-2016 In force from: 01-01-2017
Taxes on payroll and workforce		
Labour mobility measures: tax-free mobility for housing assistance, expenses related to travelling into work, clarification of the definition of the worker's home.	Rate decrease; base decrease	Announcement: 19-05-2016 Legislation: 15-06-2016 In force from: 01-01-2017
In the case of 'Simplified Employment' tax-free ceiling has been increased.	Rate decrease	Announcement: 14-11-2017 Legislation: 23-11-2017 In force from: 24-11-2017
Corporate income tax		
Lower the corporate income tax rate uniformly to 9%.	Rate decrease	Announcement: 17-11-2016 Legislation: 20-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
Tax-allowance of angel-investments (companies which invest in a registered start-up enterprise can reduce their tax-base by the triple amount of the investment in the given year and the following 3 years, in equal amounts. The maximum value of the tax-allowance is HUF 20 million a year.)	Base decrease	Announcement: 20-12-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Tax-credits on investments for energy-efficiency (taxpayers shall be eligible for tax-credit in connection with an investment project to comply with energy efficiency targets. The tax allowance may not exceed 30 % of eligible costs of investment at present value, or maximum the forint equivalent of EUR 15 million. Taxpayers are allowed to use it also in surtax on energy suppliers in the same way as in case of development tax credit)	Base decrease	Announcement: 25-11-2016 Legislation: 25-11-2016 In force from: 01-01-2017
New investment tax incentives related to product diversification investments.	Neutral	Announcement: 14-11-2017 Legislation: 23-11-2017 In force from: 24-11-2017
Other corporate taxes		
The regulation of small business tax significantly simplified from 2017, due to the switch to shareholder-based cash-flow tax from Real+Financial-base.	Base decrease	Announcement: 07-06-2016 Legislation: 15-06-2017 In force from: 01-01-2017
In accordance with decreasing employers' social contribution tax and corporate income tax, the rate of small business tax was reduced by 2 percentage points from 2017 (from 16 % to 14 %) and an additional 1 percentage point from 2018.	Rate decrease	Announcement: 12-12-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Value-added tax		
VAT rate on fresh milk decreased from 18 % to 5 %.	Rate decrease	Announcement: 01-04-2016 Legislation: 01-06-2016 In force from: 01-01-2017
VAT rate on eggs decreased from 27 % to 5 %.	Rate decrease	Announcement: 01-04-2016 Legislation: 01-06-2016 In force from: 01-01-2017
VAT rate on poultry decreased from 27 % to 5 %.	Rate decrease	Announcement: 01-04-2016 Legislation: 01-06-2016 In force from: 01-01-2017
VAT rate on internet access decreased from 27 % to 18 %.	Rate decrease	Announcement: 01-04-2016 Legislation: 01-06-2016 In force from: 01-01-2017
VAT rate on restaurant meals decreased from 27 % to 18 %.	Rate decrease	Announcement: 01-04-2016 Legislation: 01-06-2016 In force from: 01-01-2017
The individual exemption for VAT was increased from HUF 6 million to HUF 8 million per year.	Base decrease	Announcement: 01-10-2016 Legislation: 01-11-2016 In force from: 01-01-2017
VAT rate on fish decreased from 27 % to 5 %.	Rate decrease	Announcement: 01-04-2017 Legislation: 01-06-2017 In force from: 01-01-2018

Description of measure	Change	Date
VAT rate on edible offal of swine decreased from 27 % to 5 %.	Rate decrease	Announcement: 01-05-2017 Legislation: 01-06-2017 In force from: 01-01-2018
VAT rate on internet access decreased from 18 % to 5 %.	Rate decrease	Announcement: 01-03-2017 Legislation: 01-06-2017 In force from: 01-01-2018
VAT rate on Braille-displays and printers decreased from 27 % to 5 %.	Rate decrease	Announcement: 01-10-2017 Legislation: 10-11-2017 In force from: 01-01-2018
Other excise duties		
The excise duty rates on tobacco products have been increased in 3 steps.	Rate increase	Announcement: 01-05-2016 Legislation: 01-11-2016 In force from: 01-09-2016; 01-01-2017; 01-07-2017
Other taxes		
From 2017 the rate of the bank levy decreased from 0.24 % to 0.21 %.	Rate decrease	Announcement: 15-04-2016 Legislation: 15-06-2016 In force from: 01-01-2017
From 1 January 2017 the surtax on financial credit institutions was abolished.	Rate decrease	Announcement: 07-06-2016 Legislation: 15-06-2016 In force from: 01-01-2017
Bank levy: the tax can be reduced by the amount of specific supported objective (sport donations).	Neutral	Announcement: 13-06-2017 Legislation: 19-06-2017 In force from: 20-06-2017
Abolition of the original advertisement tax obligation that existed before 25.05.2017.	Rate decrease; base decrease	Announcement: 16-05-2017 Legislation: 25-05-2017 In force from: 25-05-2017
Introduction of a new tax obligation which complies with EU rules.	Rate increase; base increase	Announcement: 16-05-2017 Legislation: 25-05-2017 In force from: 01-07-2017

Malta

Description of measure	Change	Date
Personal income tax: Earned income		
Income Tax Rebate for Pensioners. Pensioners aged over 61 will no longer pay tax on pension income up to a maximum of EUR 13 000.	Rate decrease	Announcement: 17-10-2016 In force from: 01-01-2017
Social security contributions: Employee		
Reckoning contributions after retirement. Pensioners who have retired from work and are not yet 65 years of age and are engaged in part-time work or are self-employed will be able to pay the National Insurance contribution pro-rata at a15 % rate worked on their net income.	Neutral	Announcement: 9-10-2017 In force from: 01-01-2018
Taxes on payroll and workforce		
Income Tax Rebate to Master's and PhD graduates.	Rate decrease	Announcement: 9-10-2017 In force from: 01-01-2018
Reduction in Income Tax - Annual Tax Rebate. Tax refund to those earning less than EUR 60 000.	Neutral	Announcement: 9-10-2017 In force from: 01-01-2018
Corporate income tax		
Capped Tax Incentive for Businesses sponsoring local council projects.	Rate decrease	Announcement: 17-10-2016 In force from: 01-01-2017
Value-added tax		
VAT Reduction for SMEs. Increase in the threshold below which SMEs will be allowed not to charge VAT.	Rate decrease; base decrease	Announcement: 9-10-2017 In force from: 01-01-2018
Environmentally-related taxes		
Anti-abuse diesel measure.	N/A	Announcement: 17-10-2016 In force from: 01-01-2017
Estate duties/inheritances/gift taxes		
Concessions on Stamp Duty for business inheritance. All properties emanating from inheritance and transferred by court auction will henceforth be taxed at a final rate of 7 %.	Rate decrease	Announcement: 17-10-2016 In force from: 01-01-2017
Transaction taxes (movable and immovable property)		
Financial support to first time buyers. The duty exemption for first-time buyers was extended till the end of 2017.	Rate decrease	Announcement: 17-10-2016 In force from: 01-01-2017
Financial support to first time buyers and for those buying their second home. Benefits also extended to persons with disability and Gozitans.	Rate decrease	Announcement: 9-10-2017 In force from: 01-01-2018

Netherlands

Description of measure	Change	Date
Personal income tax: Earned income		
The maximum of the general tax credit will increase to EUR 2 254 (2016: EUR 2 242). Furthermore, the general tax credit will decrease by 4.787 % of every euro earned (2016: 4.822 %).	Rate decrease	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
The tax credit for box 1 income for the elderly with an income up to EUR 35 949 has been increased by EUR 215 in 2017 amounting to EUR 1 292 (2016: EUR 1 187).	Rate decrease	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Decrease of the length of the 3rd bracket by EUR 400 to EUR 67 072 (2016: EUR 66 421).	Rate increase	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Decrease of the maximum of the earned income tax credit (EITC) by EUR 46 amounting to EUR 3 223 (2016: EUR 3 103). And decrease of the income level at which the EITC starts to decrease by EUR 1 500 to EUR 32 444 (2016 EUR 34 015).	Rate increase	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Phasing out the voluntary pension scheme for owner-managers of closely held corporations. Reform related to both PIT and CIT.	Neutral	Announcement: 20-09-2016 Legislation: 07-03-2017 In force from: 01-06-2017
The old age tax credit for the elderly with an income up to EUR 36 346 has been increased by EUR 115 in 2018 (additional to inflation correction) amounting to EUR 1 418 (2017: EUR 1 292).	Rate decrease	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
The old age tax credit for the elderly with an income up to EUR 36 346 will be increased by EUR 160 in 2019 and an income-dependent reduction of 15 % (reduction until an old age tax credit of EUR 0) will be introduced in 2019.	Rate decrease	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2019
The old age tax credit for single persons has been decreased by EUR 19 in 2018 (before inflation correction) to EUR 423 (2017: EUR 438).	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
The (wastable) income-dependent combination tax credit and the labour tax credit can currently be transferred to the income of the spouse. This will be phased out gradually.	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2019
The maximum of the general tax credit will decrease by EUR 8 (before inflation correction) to EUR 2 265 (2017: EUR 2 254).	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
The exemption on income tax on imputed rental value for owner-occupied housing with no or little mortgage interest will be phased out in 30 years.	Base increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2019
The number of tax brackets will be reduced from four to two. In 2021 the rate of the first tax bracket will be 36.95 % and the top tax rate will be 49.5 %.	Rate decrease	Announcement: 10-10-2017 In force from: 01-01-2019
The threshold for the top tax rate (EUR 68 507) will not be adjusted for inflation until 2021. From 2022 onwards, the planned rise in the threshold will be limited to a smaller increase.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019

Description of measure	Change	Date
The deductibility of most deductible items will be limited gradually. From 2023 onwards, the maximum deductibility is equal to the rate of the lowest tax bracket (36.95 %).	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2020
The rate of imputed rental income will be decreased in three steps with in total 0.15 % of the value of the property	Base decrease	Announcement: 10-10-2017 In force from: 01-01-2020
The general tax credit will be increased gradually by approximately EUR 350 in total.	Rate decrease	Announcement: 10-10-2017 In force from: 01-01-2019
The maximum of the (income dependent) earned income tax credit will be increased gradually by approximately EUR 545 in total.	Rate decrease	Announcement: 10-10-2017 In force from: 01-01-2020
The (income dependent) earned income tax credit will decrease by 6.0 % of every euro earned above EUR 33 112 (2018: 3.6 %)	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019
The income dependent combination tax credit (for working spouses with children) will be zero (2018: EUR 1 052) at the threshold income (2018: EUR 4 934) and will increase by 11.45 % (2018: 6.16 %) of every euro earned above the threshold income.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019
Personal income tax: Unincorporated businesses/Self employment income		
Stepwise increase in the tax rate on income from ownership of closely held companies (box 2) to 28.5 % (currently 25 %) in order to maintain neutrality between legal forms after CIT rate decrease.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2020
Personal income tax: Savings		
Deemed capital income (currently 4 % of wealth) will be dependent on the total amount of wealth: up to EUR 100 000 the deemed income will be 2.9 %; for the amount above EUR 100 000 but not exceeding EUR 1 000 000 the deemed income will be 4.7 % and the deemed income on taxable wealth above EUR 1 000 000 will be 5.5 %. The basic exemption of wealth from taxable wealth (2015: EUR 21 330 per person) will be increased to EUR 25 000.	Neutral	Announcement: 15-09-2015 Legislation: 30-12-2015 In force from: 01-01-2017
The imputed return on savings for box 3 income will no longer be based on a five-year moving average, but on the average return on savings between July (t-2) and June (t-1). Also the tax exemption for box 3 income will be raised to EUR 30 000 (2017: EUR 25 000).	Rate decrease; base decrease	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
Corporate income tax		
Gradual increase of the length of the 1st bracket to EUR 350 000 in 2021 (2016: EUR 200 000).	Rate decrease	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Changes to align the Dutch innovation box with BEPS action point 5 for preferential regimes on intellectual property.	Base increase	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
Limitation of interest deduction by stricter definition of related parties and stricter anti-abuse rule tackling excessive interest payments in case of acquisitions.	Base increase	Announcement: 20-09-2016 Legislation: 20-12-2016 In force from: 01-01-2017
The planned extension of the length of the 1st bracket to EUR 350 000 will be reversed.	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
The effective tax rate of the patent box will be raised to 7 % (2017: 5 %).	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
A general interest limitation rule (earnings stripping rule) with a lower threshold of EUR 1 million and no group exemption.	Base increase	Announcement: 10-10-2017 In force from: 01-01-2019
Limitation of loss carryforward provisions: from 9 years to 6 years.	Base increase	Announcement: 10-10-2017 In force from: 01-01-2019
Thin capitalisation rule for banks and insurance companies: interest paid on corporate debt in excess of 92 % of total assets is not deductible for tax purposes.	Base increase	Announcement: 10-10-2017 In force from: 01-01-2020
Stepwise decrease in the CIT rate to 21 % (currently 25 %) and 16 % for the first EUR 200 000 (currently 20 %).	Rate decrease	Announcement: 10-10-2017 In force from: 01-01-2019
Abolition of general withholding tax on dividends.	N/A	Announcement: 10-10-2017 In force from: 01-01-2020
Introduction of withholding taxes on dividend flows to low-tax jurisdictions and in the event of abusive tax arrangements.	New tax	Announcement: 10-10-2017 In force from: 1-1-2020
Introduction of withholding taxes on interest and royalty flows to low-tax jurisdictions and in the event of abusive tax arrangements.	New tax	Announcement: 10-10-2017 In force from: 1-1-2021
Value-added tax		
The special treatment of agricultural entrepreneurs in VAT will be abolished.	Base increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
Increase of the reduced VAT rate of 6 % by 3 percentage points to 9 %.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019
Environmentally-related taxes		
The tax rate on natural gas will be increased and the tax rate on electricity will be decreased.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019
The general deduction on energy tax will be decreased.	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2019
The tax on landfilling and incineration of waste will be increased and in a later stage the tax base will be broadened to waste burned in bio-energy plants and to sewage sludge.	Rate increase; base increase	Announcement: 10-10-2017 In force from: 01-01-2019
Airline tickets will be taxed with an intended revenue of EUR 200 million, preferably as a part of an EU agreement on such a tax.	New tax	Announcement: 10-10-2017 In force from: 01-01-2021
The current regulation that home-owners with solar panels receive the same price (including taxes) for energy produced as for energy consumed will be reformed into a subsidy in order to increase its efficiency.	N/A	Announcement: 10-10-2017 In force from: 01-01-2020
The full refund for the car registration tax for taxis will be abolished	Rate increase	Announcement: 10-10-2017 In force from: 01-01-2020

Description of measure	Change	Date
A national CO2 tax for electricity generation by ETS companies on top of the ETS price will create a CO2 minimum price (gradually increasing to EUR 43 per tonne of CO2 emissions in 2030).	New tax	Announcement: 10-10-2017 In force from: 01-01-2020
Health-related taxes		
The excise duties on cigarettes, tobacco and cigars will be raised in 2018 (April), 2019, 2020 and 2021.	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
Estate duties/inheritances/gift taxes		
Increase of an exemption for gift-tax with a maximum of EUR 100 000, if the gift is used for financing or improvement of an owner-occupied home. The restriction that the gift has to be made by the parents of the beneficiary has been removed, but the beneficiary must still be younger than 40 years old.	Base decrease	Announcement: 15-09-2015 Legislation: 30-12-2015 In force from: 01-01-2017
Other taxes		
Comprehensive package for 2017-2020 regarding car-related taxes. The most important changes of the package are a decrease of dependence of tax revenues on CO2 emissions and a decrease of the new car registration tax and a decrease of the deemed income of private use of company cars.	N/A	Announcement: 19-06-2015 Legislation: 6-7-2016 In force from: 01-01-2017

Austria

In Austria, no major tax reforms were enacted in 2017.

Poland

Description of measure	Change	Date
Personal income tax: Earned income		
Modification of the tax-free amount. It will be higher for low-income (up to PLN 11 000 per year) taxpayers and lower for the high-income (over PLN 85 528 per year) taxpayers.	Base decrease	Legislation: 29-11-2016 In force from: 01-01-2017
Personal income tax: Unincorporated businesses/Self employment income		
Introduction of a tax exemption in the amount of PLN 20 000 of revenues gained from sale of processed vegetal and animal products (not processed in an industrial way)	Base decrease	Announcement: 2016 Legislation: 16-11-2016 In force from: 01-01-2017
Enlargement of R&D tax relief; introduction of the possibility to claim a cash payment of the amount of qualified expenditure which cannot be deducted because of insufficient taxable income; exclusion from the revenue of the nominal value of shares in the case of commercialization of intellectual property.	Base decrease	Announcement: 2016 Legislation: 04-11-2016 In force from: 01-01-2017
Increase of the limit of revenues (from EUR 150 000 to EUR 250 000) which entitles taxpayers to choose simplified form of personal income taxation - a lump-sum tax on evidenced revenues.	Neutral	Announcement: 2016 Legislation: 16-12-2016 In force from: 01-01-2017
Taxes on payroll and workforce		
Taxpayers may request the tax administration to fill in the PIT tax return for them, based on data provided by their employers.	Neutral	Announcement: 2017 Legislation: 14-03-2017 In force from: 15-03-2017
Corporate income tax		
The Act of 5 September 2016 amending the law on income tax from natural persons and legal persons income tax Act reduced the corporate income tax rate to 15 % for small taxpayers (i.e. taxpayers with sales revenues not exceeding the equivalent of EUR 1.2 million in the previous tax year and for new taxpayers – under conditions laid down in the law) or newly started taxpayers (in the year in which they initiated business activity).	Rate decrease	Legislation: 05-09-2016 In force from: 01-01-2017
The Act of 13 April 2016 amending the law on income tax from natural persons and legal persons income tax Act and the Act on freedom of economic activity introduced (in 2017) regulations providing for exclusion from tax deductible costs payments related to transactions, that were not conducted in line with an obligation to make the payment via a payment (bank) account if the value of the transaction exceeded PLN 15 000.	Base increase	Legislation: 13-04-2016 In force from: 01-01-2017
The Law of 4 November 2016 amending certain laws defining the conditions for business to innovate: - increased the level of the tax deduction from a tax basis for costs incurred for R&D activity, - extended the list of eligible costs by adding the costs of patents as well as rights to inventory and industrial designs occurred by SMEs, - made the tax deduction refundable (under conditions laid down in the law), - abolished taxation from the revenue of the nominal value of shares in the case of commercialization of intellectual property by qualified taxpayers (e.g. educational and research institutions)	Base decrease	Legislation: 04-11-2016 In force from: 01-01-2017
Introduction of two sources of income: (1) income of a capital nature, (2) income of business activity and of special branches of agricultural activities. Taxable profits and costs from each source are to be separately settled in CIT return.	Neutral	Announcement: 27-11-2017 Legislation: 27-10-2017 In force from: 01-01-2018

Description of measure	Change	Date
Changes in thin capitalisation rules: (1) application of restrictions to cover each debt financing (including loan granted by unrelated parties); (2) limitation of costs of surplus referring to debt financing (the difference between the interest paid by the taxpayer and the earned income on interest) to 30 % of EBITDA. The ratio is computed as the surplus of the total income from all sources less interest income over the sum of the deductible expenses decreased by depreciation on fixed and intangible assets and costs of debt financing. The annual limit has been increased to PLN 3 million.	Base increase	Announcement: 27-11-2017 Legislation: 27-10-2017 In force from: 01-01-2018
Limiting tax deductibility of payments for certain intangible services and fees for the use of copyright, industrial property rights or know-how.	Base increase	Announcement: 27-11-2017 Legislation: 27-10-2017 In force from: 01-01-2018
New CFC rules. Change of criteria for qualifying a foreign company as subject to CFC (change of shareholding levels from 25 % to 50 %, focus on effective tax rate as opposed to nominal tax rate). Broadening a catalogue of revenue deemed as 'passive' for the purpose of CFC rules as well as change of the 'passive income' ratio from 50 % to 33 %.	Base increase	Announcement: 27-11-2017 Legislation: 27-10-2017 In force from: 01-01-2018
Introduction of a minimum taxation on commercial property (malls or office buildings). Minimum tax will be payable monthly at 0.035 % of excess of the initial value of the building over PLN 10 million (0.42 % annually). Consequently, tax will be due regardless of the level of actual income derived by taxpayer. This minimum tax is off-set-able against CIT, if CIT is higher.	New tax	Announcement: 27-11-2017 Legislation: 27-10-2017 In force from: 01-01-2018
Other corporate taxes		
Poland is planning to introduce regulations concerning Mandatory Disclosure Rules (MDR). At the moment there are ongoing legislative procedures (analytical work), after public consultation which took place in 2017. Generally, Polish MDR will reflect OECD guidance presented in the BEPS Action 12 Report. At the same time, Poland actively participates at EU work regarding this issue (amendments to the DAC Directive).	Neutral	Announcement: 20-10-2017
Value-added tax		
Extending the application of 0 % VAT rate for the supply and import of vessels used for navigation on the high seas and carrying passengers for reward or used for the purpose of commercial, industrial or fishing activities, or for rescue or assistance at sea, or for inshore fishing and for import parts and equipment for these vessels.	Rate decrease	Announcement: 10-08-2016 Legislation: 06-07-2016 In force from: 01-01-2017
Introduction of the joint and several liability of taxpayer representative (maximum PLN 500 000) for tax arrears arising in the first 6 months of taxpayer's activity if the tax arrears are a result of fraudulent activity.	N/A	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017
Extension of the scope of reverse charge mechanism to processors (single economic transaction exceeding the limit of PLN 20 000 (circa EUR 5 000)), certain gold, silver and platinum products.	N/A	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017
Introduction of penalties of 30 % (20 %) for VAT underestimation or 100 % for VAT underestimation if taxpayer is found to have participated in fraudulent transactions (carousel fraud). Taxpayers will not be punished if they voluntarily correct their VAT return before a tax audit commences. VAT arrears resulting from accounting errors will not be punished, nor will arrears from reporting VAT in the wrong periods.	N/A	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
Maintain the current level of VAT rates.	Neutral	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017
Introduction of the standard 23 % VAT rate instead of the exemption on the supply of services constituting an element of the insurance, which forming a separate whole and is proper and indispensable for the supply of a tax-exempt service.	Rate increase	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-07-2017
Introduction of reverse charge mechanism to construction services supplied by subcontractors.	N/A	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017
The amendment of the rules on VAT chargeability for IC acquisition of fuels (so called the "fuel package"). Under new provisions the taxable person (acquirer) / tax remitter (the warehouse keeper or a registered consignee) is obliged to pay the VAT due within 5 days from the moment of entry of fuels in the Polish territory.	N/A	Announcement: 19-07-2016 Legislation: 07-07-2016 In force from: 01-08-2016
Increasing the subjective exemption limit (the registration threshold) in the tax on goods and services for taxpayers whose annual turnover does not exceed EUR 40 000 (PLN 200 000).	Base decrease	Announcement: 15-12-2016 Legislation: 01-12-2016 In force from: 01-01-2017
So-called optional Split Payment Mechanism (SPM) which will be applicable to domestic B2B transactions.	Neutral	Announcement: 20-12-2017 Legislation: 15-12-2017 In force from: 01-07-2018
Increasing the VAT rate on specific products (i.e. certain hygienic or pharmaceutical articles) from 8 % to 23 %.	Rate increase	Announcement: 11-01-2018 Legislation: 14-12-2017 In force from: 19-01-2018
Extension of the scope of taxable persons obliged to submit a unified format (the Single Audit File for VAT - JPK) to the tax authority by electronic means on a monthly basis. JPK is a set of information on purchases /sales for the period in question facilitating audit checks. Large firms have had to provide JPK since July 2016 and SMEs since January 2017. As of 2018 nearly all taxable persons (including micro enterprises), except those benefiting from exemption for the so called small enterprises or carrying out only transactions exempt from VAT, have to submit JPK.	Neutral	Announcement: 14-06-2016 Legislation: 42503 In force from: 01-07-2016 01-01-2017 01-01-2018
The head of the National Fiscal Administration (hereinafter "Head of KAS") will receive daily information on the accounts and transactions of qualified entities within the meaning of STIR (i.e. other than personal accounts for private purposes). Based on the bank information provided, as well as risk ratio and other data, the Head of KAS will analyse the risk of tax fraud.	Neutral	Legislation: 29-12-2017 In force from: 13-01-2018 / 30-04-2018 (with respect to bank account blockages)
Other excise duties		
Imposing excise tax on two new categories of excise goods: novel tobacco products and liquids used in electronic cigarettes. Until 31 December 2018 the goods are zero-rated. Effective tax rates will be applicable as of 1 January 2019.	New tax	Announcement: 21-06-2017 Legislation: 12-12-2017 In force from: 01-02-2018
Other taxes		
Changing the retirement age to the state before increasing the retirement age.	Rate decrease; base decrease	Announcement: Bill submitted to Parliament 30-11-2015 Legislation: 16-11-2016 In force from: 1-10-2017

Description of measure	Change	Date
The Act of 12 October 2017 amending the tax on retail sales (Journal of Laws of 2017 item 2178) suspends collection of this tax until 1 January 2019.	Neutral	Announcement: 27-11-2017 Legislation: 12-10-2017 In force from: 01-01-2018
Amendment to the Gaming Law. According to new rules: - The activity in the scope of gaming machines outside the casino is covered under the state monopoly - Arranging gambling games via the Internet, excluding betting and promotion lotteries is covered under the state monopoly - A poker game can be organised outside casinos by entities arranging gambling games pursuant to a casino operating license granted or in the form of a poker tournament by an entity not holding a casino operating license - In order to ensure the protection of game participants against adverse effects of gambling, an entity exercising the state monopoly in the scope of games on gaming machines and an entity conducting the activity in the scope of gambling games arranged via the Internet shall be bound to implement the regulations of responsible gaming - The minister competent for public finance keeps the Register of domains intended for offering gambling games contrary to the Law - A telecommunications undertaking providing services related to access to the Internet shall be bound to prevent access, on a free of charge basis, to websites using names of Internet domains entered in the Register - Making payment services available by providers of payment services on websites using Internet domain names entered in the Register is prohibited	Base increase	Announcement: 25-05-2016 Legislation: 15-12-2016 In force from: 01-04-2017 (some provisions 01-07-2017)

Portugal

Description of measure	Change	Date
Personal income tax: Earned income		
Social transport passes included in 15 % VAT deductible, up to EUR 250.	Base decrease	Legislation: 28-12-2016 In force from: 01-01-2017
The PIT surtax was eliminated for the 1st and 2nd income brackets, will be eliminated by 30 June for the 3rd income bracket and by 30 November for the 4th and 5th income brackets.	Rate decrease	Legislation: 28-12-2016 In force from: 01-01-2017
Deduction of 25 % of investment in start-ups, up to a limit of EUR 100 000 of investment and 40 % of the tax liability.	Base decrease	Legislation: 28-12-2016 In force from: 01-01-2017
Change in the income brackets and rates.	Neutral	Legislation: 29-12-2017 In force from: 01-01-2018
Up to 15 percentage points of the deduction coefficient has to be justified with expenses.	Neutral	Legislation: 29-12-2017 In force from: 01-01-2018
Minimum of existence is linked to the Social Benefits Index instead of being a lump sum.	Neutral	Legislation: 29-12-2017 In force from: 01-01-2018
Surtax elimination.	Rate decrease	Legislation: 28-12-2016 In force from: 01-01-2017
Social security contributions: Employee		
The Extraordinary Solidarity Contribution on pensions was eliminated.	Rate decrease	Legislation: 28-12-2016 In force from: 01-01-2017
Corporate income tax		
The minimum value for the special payment in advance was reduced to EUR 850.	Rate decrease	Legislation: 28-12-2016 In force from: 01-01-2017
Deduction considering a 7 % retribution rate relative to increments of corporate capital (instead of 5 %) up to a limit of a EUR 2 million increment.	Base decrease	Legislation: 28-12-2016 In force from: 01-01-2017
12.5 % rate on taxable profit up to EUR 15 000 for companies located in a geographically unfavourable locality.	Rate decrease	Legislation: 28-12-2016 In force from: 01-01-2017
The first-in-first-out (FIFO) rules applicable to the deduction of tax losses have been repealed. The reporting period has also been reduced from 12 to 5 years, applicable to losses registered from 1 January 2017.	N/A	Legislation: 28-12-2016 In force from: 01-01-2017
State Surtax increased from 7 % to 9 % for taxable income above EUR 35 million.	Rate increase	Legislation: 29-12-2017 In force from: 01-01-2018
The reinvestment of withheld profits can occur within three years instead of two and the limit increases from EUR 5 million to EUR 7.5 million. For SMEs deduction can be 50 % of investment instead of 25 %.	Base decrease	Legislation: 29-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Value-added tax		
Introduction of a VAT exemption for movable property donations to museums of the Portuguese Museum Network (*Rede Portuguesa de Museus*), and other donations of social interest.	Base decrease	Legislation: 21-11-2016 In force from: 01-01-2017
Other excise duties		
Taxes on tobacco were subject to a general increase of 3 %.	Rate increase	Legislation: 28-12-2016 In force from: 01-01-2017
The surplus tax on energy products increased from EUR 0.005 to EUR 0.007 for petrol and from EUR 0.0025 to EUR 0.0035 for diesel.	Rate increase	Legislation: 28-12-2016 In force from: 01-01-2017
Tax on sugared beverages: rate of EUR 8.22 per hl, below 80g per litre and EUR 16.46, 80g per litre or above.	New tax	Legislation: 28-12-2016 In force from: 01-01-2017
Fermented and sparkling beverages: rate increase to EUR 10.30 per hl.	Rate increase	Legislation: 28-12-2016 In force from: 01-01-2017
All other alcoholic beverages: general rate increase of 3 %.	Rate increase	
Recurrent taxes on immovable property (business and residential)		
Additional rate of 0.7 % and 1 % on real estate total tax value above EUR 600 000 and EUR 1 000 000, respectively. There is a single rate of 0.4 % for a company's total real estate.	New tax	Legislation: 28-12-2016 In force from: 01-01-2017
5 year exemption (instead of 3) for rehabilitated urban property rented for permanent abode or used for permanent abode.	Base decrease	Legislation: 29-12-2017 In force from: 01-01-2018
Other taxes		
Tax on vehicles increased 3 %.	Rate increase	Legislation: 28-12-2016 In force from: 01-01-2017

Romania

Description of measure	Change	Date
Personal income tax: Earned income		
For the monthly taxable income obtained from pensions: Increase the amount of monthly exempt pension allowance from RON 1 050 to RON 2 000, and pensioners are exempt from payment of social healthcare contributions (health contribution for pension income will be acquitted from the state budget).	Base decrease	Announcement: 01-11-2016 Legislation: 12-01-2017 In force from: 01-02-2017
Increase in personal deductions granted to individuals with a gross monthly income of up to RON 1 950 inclusive, as well as up to RON 3 600. For a monthly gross income exceeding RON 3 600, no personal deduction is granted.	Base decrease	Legislation: 08-11-2017 In force from: 01-01-2018
The personal income flat tax rate will be decreased from 16 % to 10 %, except for gambling income, income from the transfer of real estate, and dividend income.	Rate decrease	Legislation: 08-11-2017 In force from: 01-01-2018
Social security contributions: Employee		
Introduction of a maximum ceiling for the monthly calculation base of the social health insurance contributions. The maximum ceiling is 5 gross average earnings	Base decrease	Legislation: 08-09-2015 In force from: 01-01-2017
The maximum ceiling for the monthly calculation base of the compulsory contributions to the pension fund and to the health insurance fund was repealed.	Base increase	Announcement: 01-11-2016 Legislation: 06-01-2017 In force from: 01-02-2017
People who obtain revenues from investment (dividends, interests) or/and other sources, and who, alongside these, obtain other revenues for which they pay health contributions, such as salaries, pensions, revenues from independent activities, revenues from rent, etc. will pay health contributions for all these revenues.	Base increase	Legislation: 08-09-2015 In force from: 01-01-2017
Reintroduction of the exemption from health contributions of people who derive revenues from investment (dividends, interests) or/and other sources, and who, alongside these, obtain other revenues for which they pay these contributions, such as salaries, pensions, revenues from independent activities, revenues from rent, etc.	Base decrease	Legislation: 06-01-2017 In force from: 01-02-2017
Transfer of contributions from employer to employee; decrease the social security contributions payable by employees: • 25% social insurance contribution • 10% health insurance contribution.	Rate decrease	Legislation: 08-11-2017 In force from: 01-01-2018
Social security contributions: Employer		
Employers will have to pay the work insurance contribution by applying 2.25 % to employment income and "assimilated" employment income.	N/A	Legislation: 08-11-2017 In force from: 01-01-2018
Corporate income tax		
The tax rate of 1 % applies to all micro-enterprises with one or more employees (previously, those with one employee applied a rate of 2 %). For micro-enterprises with no employees, the tax rate of 3 % remains unchanged. The condition regarding the income that a company must obtain in order to be considered a micro-enterprise was changed. Thus, revenues obtained by the company must not exceed the equivalent in Lei of EUR 500 000. Previously, the limit had been set at EUR 100 000.	Base increase	Legislation: 06-01-2017 In force from: 01-02-2017
Increase of the turnover threshold for application of the micro-enterprise tax regime from EUR 500 000 per year to EUR 1 000 000 per year	Base increase	Legislation: 08-11-2017 In force from: 01-01-2018

Description of measure	Change	Date
Other corporate taxes		
Companies that meet certain conditions will be required to pay the specific tax on activities they carry out.	N/A	Legislation: 07-11-2016 In force from: 01-01-2017
Value-added tax		
Reduction of the standard VAT rate from 20 % to 19 %, including VAT for excise duties.	Rate decrease	Legislation: 08-09-2015 In force from: 01-01-2017
Introduction of a special regime for agricultural activities regarding VAT.	N/A	Legislation: 06-12-2016 In force from: 01-01-2017
The VAT split-payment mechanism is optional from 1 October 2017, and mandatory from 1 January 2018.	N/A	Legislation: 27-12-2017 In force from: 01-01-2018
Environmentally-related taxes		
Removal of the 7 cents excise duty.	Rate decrease	Legislation: 08-09-2015 In force from: 01-01-2017
Increase of the excise duty on energy products gradually.	Rate increase	Legislation: 30-09-2017 In force from: 15-09-2017
Increase the excise duty from RON 430.71 / 1000 cigarettes in 2016 to RON 435.58 / 1000 cigarettes.	Rate increase	Legislation: 08-09-2015 In force from: 01-01-2017
Increase in the excise duty to RON 448.74 / 1000 cigarettes	Rate increase	Legislation: 18-07-2017 In force from: 01-01-2018
Transaction taxes (movable and immovable property)		
In determining PIT for the tax income derived by taxpayers from the transfer of real estate from the personal property, a deduction of RON 450 000 RON is granted, the difference being taxed at a rate of 3 %.	Base decrease	Legislation: 06-01-2017 In force from: 01-02-2017
Other taxes		
Elimination of the construction tax.	N/A	Legislation: 08-09-2015 In force from: 01-01-2017

Slovenia

Description of measure	Change	Date
Personal income tax: Earned income		
(1) Change of the income tax scale, which brings the overall burden reduction for all taxpayers with income above the 1.6 of the average wage in Slovenia (between current 2nd and 3rd tax bracket a new tax bracket at the net tax base of EUR 48 000 and with the rate of 34 % is introduced, while the rate of a personal income tax in the 4th bracket is reduced from 41 % to 39 %). (2) An increase in income threshold for eligibility for a higher additional general tax relief, namely the increase of EUR 300 from the current EUR 10 866.37 to EUR 11 166.37 of the total active income per taxpayer. (3) Income paid as a reward for performance is exempt from income tax (but not from social security contributions), but only up to 70 % of the last known average monthly wage in the Republic of Slovenia.	Rate decrease; base decrease	Legislation: 27-09-2016 In force from: 01-01-2017
(1) Introduction of a linearly determined general tax relief for incomes between EUR 11 166.67 and EUR 13 316.83 (2) Introduction of a special tax scheme for income from employment of posting employees abroad. (3) Increase of tax allowance for the income from students' work from 70 % to 100 % of the general allowance. (4) Increase of the PIT exemption for the income paid as a reward for the business performance from 70 % to 100 % of the latest known average monthly wage in the Republic of Slovenia.	Base decrease	Legislation: 08-12-2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Introduction of some anti-avoidance provisions in the flat-rate system for the self-employed.	Neutral	Legislation: 08-12-2017 In force from: 01-01-2018
Corporate income tax		
An increase in the CIT rate by 2 percentage points (from 17 % to 19 %).	Rate increase	Legislation: 19-10-2016 In force from: 01-01-2017
(1) Introduction of some anti-avoidance provisions in the flat-rate system. (2) Additional solutions have been adopted to include all revaluation effects and reclassify all financial instruments into the tax base as a result of the amendments to the International Financial Reporting Standard no. 9.	Neutral	Legislation: 08-12-2017 In force from: 01-01-2018
Health-related taxes		
A two-step increase in the minimum excise duty: firstly, an increase from EUR 106 to EUR 109 per 1 000 cigarettes (entry into force on 1 February 2017); secondly, an increase from EUR 109 to EUR 111 per 1 000 cigarettes (entry into force on 1 July 2017).	Rate increase	Legislation: 05-01-2017 In force from: 01-02-2017
Other taxes		
Allowing pre-filled tax forms and establishing additional options for the payment of tax debts (for example, allowing a deferral of the due date for payment of taxes and contributions for five days after the submission of a tax return).The liquidity effect is expected.	N/A	Legislation: 27-09-2016 In force from: 01-01-2017
Taxpayers are charged no fee for the use of a credit or debit cards when making a tax or other public duty payment under the public payments administration system.	Neutral	Legislation: 08-12-2017 In force from: 01-01-2018
Free choice of a taxpayer whether to use an electronic device or a pre-numbered receipt book when issuing a receipt.	Neutral	Legislation: 08-12-2017 In force from: 01-01-2018

Slovakia

Description of measure	Change	Date
Personal income tax: Earned income		
Introduction of 7 % withdrawal tax on dividends.	New tax	Legislation: 21-09-2016 In force from: 01-01-2017
Exemption of income from the sale of ownership interest in domestic corporations if ownership is higher than 10 % and held more than 24 months.	Base decrease	Legislation: 28.12.2017 In force from: 01-01-2018
Personal income tax: Unincorporated businesses/Self employment income		
Lump-sum expenditures will increase up to 60 % of business income, with maximum threshold of EUR 20 000 annually.	Base decrease	Legislation: 21-09-2016 In force from: 01-01-2017
Social security contributions: Employee		
Increase of maximum assessment base (maximum threshold for contributions to apply) from 5 x average wage (t-2) to 7 x average wage (t-2). Applicable to both SSC of employees and employers.	Base increase	Legislation: 11-10-2016 In force from: 01-01-2017
Abolition of maximum assessment base (maximum threshold for contributions to apply). Applicable to both SSC of employees and employers.	Base increase	Legislation: 14-12-2016 In force from: 01-01-2017
New social insurance contribution allowance for pensioners. The allowance is applicable only on income from contract of services. The amount of allowance is EUR 200 per month. Applicable to both SSC of employees and employers.	Base decrease	Legislation: 09-11-2017 In force from: 01-07-2018
Social security contributions: Employer		
Health contribution from dividends replaced by withdrawal tax on dividends.	Neutral	Legislation: 21-09-2016 In force from: 01-01-2017
Abolition of health insurance contribution allowance for employer. (The amount of allowance was EUR 380. The allowance decreased with rising income.)	Base increase	Legislation: 30-12-2017 In force from: 01-01-2018
Corporate income tax		
Decrease of CIT rate from 22 % to 21 %.	Rate decrease	Legislation: 17-10-2015 In force from: 01-01-2017
The 25 % R&D super-deduction introduced in 2015 was increased to 100 %.	Base decrease	Legislation: 28.12.2017 In force from: 01-01-2018
Exemption of income from the sale of ownership interest in domestic corporations if ownership is higher than 10 % and held more than 24 months.	Base decrease	Legislation: 28.12.2017 In force from: 01-01-2018
Other corporate taxes		
Increase and prolongation of special levy on enterprises in regulated sector - 100 % increase of monthly rate (current level - 0.363 %).	Rate increase; base increase	Legislation: 21-09-2016 In force from: 01-01-2017
Prolongation of special levy on selected financial institutions - Monthly rate 0.2 %, abolition after 2020.	Neutral	Legislation: 17-08-2016 In force from: 01-01-2017
Other excise duties		
Increase of minimum and special rate and gradual increase of excise duty from cigarettes based on a calendar.	Rate increase	Legislation: 17-08-2016 In force from: 01-01-2017
Other taxes		
8 % levy on a new non-life insurance contracts.	New tax	Legislation: 14-12-2016 In force from: 01-01-2017

Finland

Description of measure	Change	Date
Personal income tax: Earned income		
Full adjustment for inflation to the central government income tax scale.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
As part of a general tax cut on earned income, the lowest and the highest marginal tax rate in the central government income tax scale were lowered.	Rate decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
As part of a general tax cut on earned income, the maximum amount of the earned income tax credit was increased from EUR 1 260 per year to EUR 1 420 per year.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
The maximum basic allowance in local taxation was increased.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
Pension income deduction in central government taxation was increased.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
Pension income deduction in local government taxation was increased.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
The surtax on pension income was decreased.	Rate decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
As part of a general tax cut on earned income, the standard deduction for work-related expenses was increased.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
The tax credit for domestic help or household expenses was increased.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
Full adjustment for inflation to the central government earned income tax scale.	Base decrease	Announcement: 19-09-2017 Legislation: 14-12-2017 In force from: 01-01-2018

Description of measure	Change	Date
Regional government, health and social services reform: due to change in the financing of social and health services, tax revenue of the municipalities is decreased and tax revenue of the central government increased.	N/A	Announcement: 02-03-2017 In force from: 01-01-2020
Personal income tax: Unincorporated businesses/Self employment income		
A 5 % entrepreneur deduction was introduced for entrepreneurs and self-employed persons, those engaged in agriculture, forestry or reindeer husbandry, and business partnerships and deemed partnerships.	Base decrease	Announcement: 06-10-2016 Legislation: 21-12-2016 In force from: 01-01-2017
Social security contributions: Employee		
As part of the competitiveness pact agreement employee SSC were increased.	Rate increase	Announcement: 15-09-2016 Legislation: 29-12-2016 14-12-2018 In force from: 01-01-2017 01-01-2018
Social security contributions: Employer		
As part of the competitiveness pact agreement employer SSC were decreased.	Rate decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 14-12-2018 In force from: 01-01-2017 01-01-2018
Corporate income tax		
Regional government, health and social services reform: due to change in the financing of social and health services, tax revenue of the municipalities is decreased and tax revenue of the central government increased.	N/A	Announcement: 02-03-2017 In force from: 01-01-2020
Value-added tax		
Right to use cash based accounting on VAT payments for companies with turnover not more than EUR 500 000.	Neutral	Announcement: 15-09-2016 Legislation: 16-12-2016 In force from: 01-01-2017
Transfer the collection of import VAT from Customs to the Tax Administration.	Neutral	Announcement: 04-09-2015 Legislation: 11-08-2017 In force from: 01-01-2018
Environmentally-related taxes		
Increase in tax on transport fuels.	Rate increase	Announcement: 15-09-2016 Legislation: 16-12-2016 In force from: 01-01-2017
Increase in energy content tax and CO2 tax on heating fuels.	Rate increase	Announcement: 15-09-2016 Legislation: 16-12-2016 In force from: 01-01-2017

Description of measure	Change	Date
Increase in energy content tax and CO2 tax on heating fuels.	Rate increase	Announcement: 19-09-2017 Legislation: 19-12-2017 In force from: 01-01-2018
Health-related taxes		
Increase in tax on alcohol.	Rate increase	Announcement: 19-09-2017 Legislation: 28-12-2017 In force from: 01-01-2018
Increase in tax on tobacco.	Rate increase	Announcement: 19-09-2017 Legislation: 01-12-2017 In force from: 01-01-2018
Other excise duties		
Abolition of excise duty on sweets and ice cream.	Base decrease	Announcement: 15-09-2016 Legislation: 29-12-2016 In force from: 01-01-2017
Estate duties/inheritances/gift taxes		
Inheritance and gift tax rates of all tax brackets are decreased. Tax rates of I tax class (close relatives) are decreased more than the tax rates of II tax class (others than close relatives). Within the I tax class, tax rates of gift tax is decreased more than the rates of inheritance tax. In addition to decreasing tax rates, certain deductions in inheritance and gift taxation are increased. Abolition of the tax exemption of life insurance compensation paid to close relatives and estate.	Rate decrease; base increase	Announcement: 06-10-2016 Legislation: 21-12-2016 In force from: 01-01-2017
Recurrent taxes on immovable property (business and residential)		
Increase in minimum real estate tax rates.	Rate increase	Announcement: 06-10-2016 Legislation: 18-11-2016 In force from: 01-01-2017

Sweden

Description of measure	Change	Date
Personal income tax: Earned income		
Limited upward adjustment of the threshold for state income tax (announcement).	Base increase	Announcement: 21-09-2015 Legislation: 23-11-2016 In force from: 01-01-2017
Increased tax deduction for household work (repair of domestic appliances).	Base decrease	Announcement: 20-09-2016 In force from: 01-01-2017
Upward adjustment of the amount limit for deductibility for travel.	Base increase	Announcement: 20-09-2016 In force from: 01-01-2017
Reduced tax by increasing the basic allowance for older people.	Base decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Tax reduction for sickness compensation and activity compensation.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Higher special income tax for non-residents (increase to 25 %).	Rate increase	Announcement: 20-09-2017 In force from: 01-01-2018
Changed calculation and taxation of car benefit due to the new bonus-malus system.	N/A	Announcement: 20-09-2017
Reduced taxation of employee stock options in certain cases.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Reduced tax for the elderly, same tax as younger workers 2020.	N/A	Announcement: 20-09-2017 In force from: 01-01-2019
Tax reduction for trade union membership fees.	Rate decrease	Announcement: 20-09-2017 In force from: 01-07-2018
Taxation and paying taxes while working temporarily in Sweden.	Neutral	Announcement: 20-09-2017 In force from: 01-01-2019
Personal income tax: Savings		
Increased taxation on savings in investment savings accounts and in endowment insurance.	Base increase	Announcement: 20-09-2017 In force from: 01-01-2018
Social security contributions: Self-employed		
Decreased social security contributions for individual businesses in some cases.	Rate decrease	Announcement: 20-09-2016 In force from: 01-01-2017
Taxes on payroll and workforce		
Expansion of "growth support" (temporary 2018-2021).	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018

Description of measure	Change	Date
Removal of tax exemption for benefits of private health and medical care.	Base increase	Announcement: 20-09-2017 In force from: 01-07-2018
Staff registers in more business operations.	Neutral	Announcement: 20-09-2017 In force from: 01-07-2018
Corporate income tax		
Tonnage tax system for shipping.	New tax	Announcement: 21-09-2015 In force from: 01-01-2017
Abolition of deductibility for postponed loans.	Base increase	Announcement: 20-09-2016 In force from: 01-01-2017
Deductibility for entertainment meals - abolished deductibility in income taxation.	Base increase	Announcement: 20-09-2016 In force from: 01-01-2017
EBIT-Interest deduction limit 35 %.	Base increase	Announcement: 20-09-2017 In force from: 01-07-2018
Reduced corporate tax rate to 20 %.	Rate decrease	Announcement: 20-09-2017 In force from: 01-07-2018
Threshold for interest deduction.	Base decrease	Announcement: 20-09-2017 In force from: 01-07-2018
Changed rules for tax allocation reserve.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Increased reversal of funds in tax allocation reserve to 110 %.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Changed rules for collateral allocation reserve.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Increased reversal of funds in collateral allocation reserve.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Temporary limitation of loss deductions to 50 %.	Base increase	Announcement: 20-09-2017 In force from: 01-07-2018
Other corporate taxes		
New transaction date at bankruptcy.	N/A	Announcement: 20-09-2017 In force from: 01-01-2018
Decreased expansion funds tax to 20 %.	Rate decrease	Announcement: 20-09-2017 In force from: 01-07-2018
Tax rules for financial leasing.	N/A	Announcement: 20-09-2017 In force from: 01-07-2018

Description of measure	Change	Date
Value-added tax		
Increased VAT rate for movie tickets.	Rate increase	Announcement: 21-09-2015 In force from: 01-01-2017
Deductibility for entertainment meals - increased deductibility for VAT.	Base decrease	Announcement: 20-09-2016 In force from: 01-01-2017
Turnover limit for VAT.	Neutral	Announcement: 20-09-2016 In force from: 01-01-2017
Decreased VAT for some repairs.	Rate decrease	Announcement: 20-09-2016 In force from: 01-01-2017
Decreased VAT on the display of natural areas (from 25 % to 6 %).	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Environmentally-related taxes		
Decreased taxable benefit for some environmentally adjusted cars.	Base decrease	Announcement: 21-09-2015 In force from: 01-01-2017
Tax on chemicals.	New tax	Announcement: 20-09-2016 In force from: 01-07-2017
Decreased energy tax for large computer centres.	N/A	Announcement: 20-09-2016 In force from: 01-01-2017
Abolition of tax on thermal effect.	Rate decrease	Announcement: 20-09-2016 In force from: 01-07-2017
Increased tax on electricity.	Rate increase	Announcement: 20-09-2016 In force from: 01-07-2017
Changed taxation on petrol and diesel fuel.	Rate decrease	Announcement: 20-09-2017 In force from: 01-07-2018
Changed taxation of bio fuels in petrol and diesel fuel.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Tax effect due to adjusted reduction levels.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Eliminated energy tax for ethanol in E85 and high-grade FAME.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Bonus-malus excluding bonus on the expense side.	Rate increase	Announcement: 20-09-2017 In force from: 01-07-2018
Indexation of environmental taxes (tax on air travel and chemical tax with CPI, natural gas tax and waste tax with CPI + 2 %).	Rate increase	Announcement: 20-09-2017 In force from: 01-01-2018

Description of measure	Change	Date
Increased CO2 tax in the heating sector.	Rate increase; base increase	Announcement: 20-09-2017 In force from: 01-01-2018
Decrease in energy tax in heat production.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Tax decrease for data centres.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Tax on air travel.	New tax	Announcement: 20-09-2017 In force from: 01-04-2018
Health-related taxes		
Increased tax rate on alcohol.	Rate increase	Announcement: 20-09-2016 In force from: 01-01-2017
Tax on e-cigarettes.	New tax	Announcement: 20-09-2017 In force from: 01-07-2018
Other excise duties		
Decreased tax on advertising.	Rate decrease	Announcement: 21-09-2015 In force from: 01-01-2017
Decreased tax on advertising.	Rate decrease	Announcement: 20-09-2017 In force from: 01-01-2018
Estate duties/inheritances/gift taxes		
Increased allowed rate of write-down on investments in construction of buildings for housing.	N/A	Announcement: 20-09-2017 In force from: 01-07-2018
Recurrent taxes on immovable property (business and residential)		
Decreased real estate tax on hydroelectric power.	Rate decrease	Announcement: 20-09-2016 In force from: 01-07-2017
Recurrent taxes on (net) wealth		
Floor for imputed rent in yield tax on pension funds.	Rate increase	Announcement: 20-09-2016 In force from: 01-07-2017

United Kingdom

Description of measure	Change	Date
Personal income tax: Earned income		
Personal Allowance: increase to GBP 11 500 in April 2017.	Base decrease	Announcement: 16-03-2016 In force from: 06-04-2017
Higher Rate Threshold: increase to GBP 45 000 in April 2017.	Base decrease	Announcement: 16-03-2016 In force from: 06-04-2017
Salary Sacrifice: remove tax and NICs advantages.	Base increase	Announcement: 23-11-2016 In force from: 06-04-2017
Disguised Remuneration: extend to self-employed and remove company deduction.	Base increase	Announcement: 23-11-2016 In force from: 06-04-2017
Company Car Tax: reforms to incentivise ULEVs.	Neutral	Announcement: 23-11-2016 Legislation: Finance Bill 2017 In force from: 06-04-2020
Air Quality: increase Company Car Tax diesel supplement by 1 percentage point from April 2018.	N/A	Announcement: 22-11-2017
Patient Capital Review: reforms to tax reliefs to support productive investment.	Neutral	Announcement: 22-11-2017
Royalty payments made to low tax jurisdictions: expand the scope of the existing royalty withholding tax rules to cover royalties, and other similar payments, that are connected with sales to UK customers, regardless of the existence of a permanent establishment in the UK.	N/A	Announcement: 22-11-2017
Personal income tax: Unincorporated businesses/Self employment income		
Sharing Economy: GBP 1 000 allowance for both trading and property income.	Rate decrease; base decrease	Announcement: 16-03-2016 In force from: 06-04-2017
Personal income tax: Savings		
Savings: remove withholding tax obligations for interest paid by collective investment vehicles (CIVs) and on peer to peer (P2P) loans for the 2017-18 tax year onwards.	Base decrease	Announcement: 16-03-2016 In force from: 06-04-2017
Money Purchase Annual Allowance: reduce to EUR 4 000 per annum.	Base increase	Announcement: 23-11-2016 In force from: 06-04-2017
Dividend Allowance: reduce to GBP 2 000 from April 2018.	Base increase	Announcement: 08-03-2017 Legislation: 01-11-2017 In force from: 06-04-2018
Social security contributions: Employer		
National Insurance contributions: align primary and secondary thresholds.	Rate increase	Announcement: 23-11-2016 In force from: 06-04-2017

Description of measure	Change	Date
Corporate income tax		
Corporation Tax: restrict relief for interest.	Rate increase; base increase	Announcement: 16-03-2016 In force from: 06-04-2017
Corporation Tax: extend scope of hybrid mismatch rules.	Base increase	Announcement: 16-03-2016 In force from: 01-01-2017
Corporation Tax: Loss reform relaxing the use of carried-forward losses, enabling them to be used against profits of any type and by any company within a group. It will also restrict the use of carried forward losses above a threshold of £5m so that they cannot reduce a company's profits by more than 50%.	Base increase	Announcement: 16-03-2016 In force from: 06-04-2017
Corporation Tax: defer bringing forward payment for large groups for two years.	Neutral	Announcement: 16-03-2016 In force from: 06-04-2017
Corporation Tax: freeze indexation allowance from January 2018.	N/A	Announcement: 22-11-2017
Value-added tax		
VAT Flat Rate Scheme: 16.5% rate for businesses with limited costs.	Rate increase	Announcement: 23-11-2016 In force from: 06-04-2017
VAT on telecoms outside the EU: align with international practice and prevent avoidance. UK VAT will be charged on all UK residents' mobile phone use, including when outside the EU. It will align UK VAT rules with OECD principles and deter VAT avoidance.	N/A	Announcement: 08-03-2017
VAT registration threshold: maintain at GBP 85 000 for two years.	N/A	Announcement: 22-11-2017 Legislation: 01-12-2017 In force from: 01-04-2018
Online VAT fraud: extend powers to combat online VAT fraud. HMRC will hold online marketplaces jointly and severally liable for any future unpaid VAT of a UK business arising from sales of goods in the UK via that online marketplace. HMRC will also extend new rules to online market place for non-UK seller relating to instances where marketplace knew or should have known that the non-UK business should be registered for VAT in the UK. The policy will require online sellers to display their VAT number on the online market place.	N/A	Announcement: 22-11-2017
Environmentally-related taxes		
Fuel Duty: freeze in 2017-18.	Rate decrease	Announcement: 23-11-2016 In force from: 06-04-2017
Air Quality: First Year Rate increased by one VED band for new diesel cars from April 2018.	N/A	Announcement: 22-11-2017
Air Passenger Duty: freeze for long-haul economy flights and raise business class multiplier.	N/A	Announcement: 22-11-2017
Fuel Duty: freeze the main rate of fuel duty at 57.95 pence per litre for 2018-19.	N/A	Announcement: 22-11-2017

Description of measure	Change	Date
Waste Crime: extend the scope of Landfill Tax to disposals made at sites without an environmental disposal permit. The measure provides for additional staff to enforce the new legislation.	N/A	Announcement: 22-11-2017 Legislation: 16-01-2018 In force from: 01-04-2018
Health-related taxes		
Soft Drinks Industry Levy. Introduces a volume-based levy on producers and importers of added sugar soft drinks with a total sugar content over 5g per 100ml.	New tax	Announcement: 16-03-2016 In force from: 06-04-2017
Tobacco Duty: continue escalator and index Minimum Excise Duty.	N/A	Announcement: 22-11-2017
Alcohol Duties: freeze from February 2018 to February 2019.	N/A	Announcement: 22-11-2017
Other excise duties		
Gambling Duties: reform treatment of freeplays.	Base increase	Announcement: 16-03-2016 In force from: 01-08-2017
Transaction taxes (movable and immovable property)		
Stamp Duty Land Tax: abolish for First Time Buyers up to GBP 300 000.	N/A	Announcement: 22-11-2017 Legislation: 01-12-2017 In force from: 22-11-2017
Other taxes		
Insurance Premium Tax: 2 percentage points increase.	Rate increase	Announcement: 23-11-2016 In force from: 01-06-2017
Qualifying Recognised Overseas Pension Schemes: targeted charge. A new 25% tax charge will be imposed on all transfers of UK pensions to Qualifying Recognised Overseas Pension Schemes (QROPS).	New tax	Announcement: 08-03-2017 Legislation: 16-11-2017 In force from: 09-03-2017

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