Tax Competition in Europe
Growth Through Tax Reductions

The state has responsibilities and expenses, which it generally has to finance by taxes and duties, unless it is sitting on an oil or gas field or has other naturally existing, tradable goods. So, on one hand is about defining the responsibilities and expenses of the state and on the other hand finding the right burden of taxes and duties.

Taxes are an important location factor and a means to balance regional or national competitive disadvantages. Of course, there are many other important factors which determine the attractiveness of a location. But if the tax and duties burden in a country is too high, it not only loses its attractiveness, but the incentive for a shadow economy rises, the willingness to invest decreases, and as a last consequence the tax income diminishes.

So what is the right tax policy? How does one generate higher tax revenue without stifling economic growth? Or shouldn't the state rather do everything to create the optimal framework conditions for growth and prosperity in order to thus draw higher tax revenues?

The European taxpayers association, the Taxpayers Association of Europe (TAE), is for fair taxes, but also for a competition of the tax systems.

The new EU member states with their low linear tax rate, the so-called "flat tax" systems, have created excellent fiscal frame work conditions and thus started an unrivaled location offensive that put the old EU member states under significant pressure. For example, in 2004 the Slovak Republic introduced a "flatrate" (linear tax rate) for corporate tax, income tax and value added tax of 19%, which not least led to a reduction of corporate tax in Austria and Germany.

In Germany though it seems that only the linear-progressive tax scale for income tax is perceived as fair and right. Since the post-war period all proposals for the introduction of a uniform linear tax rate, e.g. the tax bracket models of Uldall or Prof. Kirchhof, the "professor from Heidelberg", have not been able to command majority backing.

Interestingly, this does not apply to the corporate tax and value added tax. Here we have uniform linear tax rates which are perceived as quite fair.

In Germany corporations are charged with 15 percent corporate tax, solidarity tax and trade tax. In spite of the 15 percent corporate tax, 30% are quite quickly due (at a trade tax collection rate of 450 percent). On the other hand, in the EU-28-average the total tax burden lies at 22 percent.

The top tax rate of 42 percent for unmarried people starts at an income of 53,666 Euro (for married couples and registered partnerships at 107,332 Euro). The three percent surcharge for "the rich" applies for an income of 254,447 Euro or more (508,894 Euro for married couples and registered partnerships), plus solidarity and church tax. Quite quickly, more than half of each additionally earned Euro is collected by the tax authority.

Whereby the amount of the tax rate alone, be it income or corporate tax, does not say anything about the effective tax burden. It is also crucial how the tax rate is designed and how the assessment basis is determined.

In order to prevent severities and ensure a maximum of individual fairness there are a variety of tax deductibles. Whoever knows their way around and acts skilfully can significantly reduce his or her tax burden in a fully legal way.

A high tax rate alone just does not ensure that everybody pays their taxes and we have “equality of taxation”. The demand for higher taxes and expansion of assessment basis in order to “grab the rich”, or so-called ones, in reality only means digging deeper into the pockets of the middle class.

For tax reductions have lead to higher tax revenue, and have supported or initiated economic growth in the USA, Estonia, Ireland, Russia, Slovakia and Germany.

For this reason the European taxpayers association rejects a full coordination of fiscal policies and especially a harmonisation of direct tax rates, or the implementation of a tax corridor or minimum tax rate for direct taxes, for it would in the end mean nothing else but eliminating tax competition and forming a European tax cartel!

If one want to achieve growth and tax revenue, one must relieve the middle class and reduce taxes.

Therefore, we continue to need tax competition in Europe! It alone guarantees that the burden of taxes and duties remain on a tolerable level.

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