"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 7, No. 1, pp. 17–22
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

INCIDENTS OF FISCAL POLICY ON THE COMPETITIVE ENVIRONMENT IN ROMANIA

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Abstract *The approach of fiscal policy in Romania covering both macroeconomic issues, implementing a certain philosophy fiscal budget to maximize the role of general government revenue in order to improve the function of redistribution and social issues, psychology, influence consumer by fiscal levers, focusing on the behavior of aggregate demand. From this perspective, this document addresses the pact between the consumer behavior and etatist behavior regarding fiscal philosophy and its implications for tax redistribution function.*

Key words:

Fiscal policy, consumer behavior, redistribution

1. Introduction

Tax policy in Romania is defining for functionality of the economic system as a whole, both in terms of the economic agent duties and taxes payer and from consumer's perspective, being commonly recognized that most revenue collection in Romania, unlike other European states come from indirect taxes or levies on consumption of economic goods. This requires considerable labor tax burden, creating pressure on real income or on purchasing power and thus to meet the demand.

Current actions, to flexibilise the fiscal policy are part of a broader reform process with the aim to get to the surface of the economic document income of the gray and black area of economy for the benefit and for the renewal of Romanian economic system. Current changes looming in fiscal policy are designed to stimulate economic activity as a provider of welfare and prosperity, access to these goals for every citizen being possible through an improvement of the collection process following onerous payment legitimate amount of tax.

2. Literature review

It is argued (Gramlich, 1999) that it is critical that fiscal policy delivers its stimulus in a „timely, targeted and temporarily" manner to achieve quickly enough politically advantages in good times to preserve fiscal sustainability. The current approach of fiscal policy is to almost exclusively focus on the study of optimal taxation that minimizes tax wedges and maximizes fiscal revenue (Gali, Lopez-Salido, Valles, 2007)[1]. Wolff (2012) advocates a euro area fiscal capacity of up to 2 per cent of euro area GDP to large output gaps for stabilization of asymmetric shocks at the level of national budgets. Additionally, a borrowing capacity would allow to address to area-wide recessions and to serve as a fiscal backstop for banking crises[2]. Bénassy-Quéré (2014) recommend moving forward with the common consolidated corporate tax base project at the EU level, possibly under enhanced cooperation; the financial sector is seen a particularly useful nucleus of a common approach to broader corporate income taxation.

3. Methodology of research

The paper does a dissertation on the necessity of reforming fiscal policy in order to stimulate economic activity, favoring growth processes of investments, creation of jobs through flexibility, adaptability and accuracy.

4. The tax burden, element of rejection of fiscal policy

In Romania, economic activity is strongly affected by the tax burden, which is actually a consequence of the high level of underground economy in GDP. Reducing legal tax rates in conditions of a budget which collects revenue located less than a third of GDP compared to a European average of 45% of GDP cannot be done without a considerable increase in the level of revenue collection. Increasing the number of taxpayers will be subject to the conditions set already, namely when public benefits obtained from the process of taxation expense will exceed actual taxation in terms of economic utility.

Taxation of labor is an operation which results in the generation of revenue by the state in order to support social assistance through income redistribution phenomenon in society. Obviously, the revenues are obtained from both production factor labor exploitation and from combining it with capital production inputs, nature or production neo-factors in economic activity, which requires a deposit of state revenues from direct taxation - if economic activity is onerous, lawful and esoteric in relation to indirect taxation. Taxation involves "identifying" an algorithm through which taxpayer's satisfaction to exceed the tax burden by reference to the utility of public goods, the result of the collection of revenues. Otherwise, the tax is evaded, rejected, with ripple effects on the whole society, from failure of the process of social assistance , up to reduction of investment flows, with direct consequences on employment levels and supporting purchasing power.

From the point of view of the taxpayer employee is a considerable burden on labor, even if the flat is small at European standards (single rate of 16% is the third lowest level of taxation in Europe, after Bulgaria with 10% and Lithuania with 15%), low taxes on labor is actually very high in Romania: the rate of VAT is one of the largest in Europe (third highest after Hungary with 27%, Sweden and Denmark with 25%), while the share of social security contributions is the 8th largest in Europe. Thus, we consider that it is essential to reduce taxation on labor, while the contribution of labor to potential GDP should grow significantly in the following years to accelerate the process of real convergence of the economy.

Romania is based on indirect taxation, therefore consumption tax revenues are higher than the European average. The implicit tax rate (defined as the ratio of actual revenues collected for a specific type of tax and the corresponding tax basis macro) stood at 20.9% in 2012, up 1.1 percentage deck above the European average. The proportion of labor taxes in GDP is 11.3%. Between 2000 and 2011 it decreased by 2 percentage points, but then, in 2012, it increased by 0.1 points. The default rate of taxation on labor was 30.4% in 2012, below the European average of 36.1%.

The need to stimulate labor, both as economic value, creating economic competitive goods and also as a basis for increasing the tax base, requires investment in training, deepening specialization in line with requirements of the businesses in order to increase economic competitiveness of goods produced, as argument for income generation in society.

The financial crisis has impacted the economies for reaching the target in various ways. First, the financial crisis obliged many governments to introduce tough fiscal consolidation measures, prioritizing other issues over R&D, technology, educational or medical system. In 2012 the share of public know-how expenditure in total government spending was lower than in 2007 for half of the EU member states[3] . The necessity to balance expenditure on innovation against expenditure on other policies, is very important to improve or consolidate the standard of life, the quality of growth.

Second, the drop in economic activity put even more emphasis on the need to find new sources of growth. Innovation is such a source - and one which is underutilized in Europe: recent evidence suggests that European firms have significantly lower rates of return in R&D than American firms (Cincera and Veugelers, 2014).

Thus, the structure of taxation in Romania has certain peculiarities, as follows:

- Prevalence of revenue from indirect taxes (in 2012 represented 47.2% of tax revenues, compared to 34.5% in Europe) than in receipts from social security contributions (in 2012 represented 31.2% versus 32.4% in the EU) and direct tax receipts (in 2012 represented 21.6% versus 33.4% in the EU)
- Asymmetry in the distribution of proceeds from the central budget and local budgets, with negative repercussions in the economic support of local projects necessary for regional functionality and development (63.5% of revenues collected are for the central budget, compared to only 3.6% of revenues collected are for local budgets);
- Maintain parity with the EU average in terms of allocation of budget revenues to funds for social assistance: 32.2% of tax revenues, while the European average is 32.0%.
- Moderate upgrading compared to the average European social fund revenue ratio: 9.1% versus 12.6% in the EU.

Table 1. Structure of budget revenues in Romania, 2000-2012

Romania	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012	
A. Structure of revenues	% of GDP													Ranking (1)	€ bn
Indirect taxes	12.2	11.3	11.6	12.3	11.7	12.9	12.8	12.6	12.0	11.0	12.1	13.2	13.4	16	17.6
VAT	6.5	6.2	7.1	7.2	6.7	8.1	7.9	8.1	7.9	6.6	7.6	8.7	8.5	9	11.2
Excise duties and consumption taxes	3.0	2.8	2.6	3.5	3.6	3.3	3.2	3.0	2.7	3.2	3.3	3.5	3.5	10	4.6
Other taxes on products (incl. import duties)	2.2	1.6	1.3	1.0	1.0	1.0	1.2	0.7	0.6	0.4	0.4	0.4	0.7	18	1.0
Other taxes on production	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.8	0.8	0.7	0.7	0.6	0.6	23	0.8
Direct taxes	7.0	6.4	5.8	6.0	6.4	5.3	6.0	6.7	6.7	6.5	6.1	6.2	6.1	25	8.0
Personal income	3.5	3.3	2.7	2.8	2.9	2.3	2.8	3.3	3.4	3.5	3.3	3.3	3.5	26	4.6
Corporate income	3.0	2.5	2.6	2.8	3.2	2.7	2.8	3.1	3.0	2.7	2.3	2.4	2.2	17	2.9
Other	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.5	0.5	0.5	21	0.6
Social contributions	11.1	10.9	10.7	9.4	9.1	9.6	9.7	9.7	9.3	9.4	8.6	9.0	8.8	21	11.6
Employers	8.1	7.1	6.5	6.2	5.9	6.4	6.3	6.2	6.0	5.9	5.5	5.7	5.7	18	7.5
Employees	3.0	3.8	4.2	3.1	3.0	3.0	3.3	3.3	3.2	3.3	2.9	2.9	2.9	16	3.8
Self- and non-employed	0.0	0.0	0.1	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.2	0.4	0.3	21	0.4
Less: amounts assessed but unlikely to be collected	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Total	30.2	28.6	28.1	27.7	27.2	27.8	28.5	29.0	28.0	26.9	26.8	28.4	28.3	25	37.3
B.Structure by level of government	% of total taxation														
Central government	59.5	59.7	60.1	62.8	63.4	63.0	63.0	62.2	62.9	61.1	63.5	64.0	63.5	12	23.7
State government (2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Local government	3.9	3.8	3.1	3.5	3.4	3.1	3.4	4.0	3.2	3.5	4.0	3.8	3.6	23	1.3
Social security funds	36.6	36.5	36.8	33.7	33.2	33.9	33.6	33.0	32.9	34.5	31.9	31.5	32.2	11	12.0
EU institutions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	0.9	0.8	0.7	0.7	0.7	n.a.	n.a.
C. Structure by economic function	% of GDP														
Consumption	11.5	10.6	10.9	11.5	11.1	12.3	12.1	11.8	11.2	10.3	11.3	12.6	12.8	10	16.8
Labour	13.2	12.9	12.3	11.1	10.7	11.0	11.6	11.8	11.6	11.8	11.1	11.2	11.3	27	14.9
Employed	13.2	12.8	12.3	11.1	10.7	11.0	11.5	11.8	11.5	11.6	10.9	11.0	11.1	26	14.6
Paid by employers	8.1	7.1	6.5	6.2	5.9	6.4	6.3	6.2	6.0	5.9	5.5	5.7	5.7	18	7.5
Paid by employees	5.2	5.7	5.9	4.9	4.8	4.6	5.2	5.6	5.4	5.7	5.4	5.3	5.4	26	7.1
Non-employed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	22	0.3
Capital	5.5	5.1	4.8	5.0	5.4	4.5	4.9	5.4	5.2	4.8	4.3	4.7	4.2	22	5.6
Capital and business income	4.3	3.9	3.8	4.0	4.5	3.6	3.9	4.2	4.2	3.8	3.2	3.6	3.3	21	4.3
Income of corporations	3.0	2.7	2.6	2.8	3.2	2.7	2.8	3.1	3.0	2.7	2.3	2.4	2.2	17	2.9
Income of households	1.2	1.1	1.0	0.9	1.0	0.6	0.7	0.8	0.9	0.9	0.6	0.7	0.7	13	0.9
Income of self-employed (incl. SSC)	0.1	0.2	0.2	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.6	0.4	25	0.6
Stocks of capital wealth	1.2	1.2	1.1	1.0	0.9	0.9	1.0	1.1	1.0	1.0	1.1	1.0	1.0	23	1.3
D. Environmental taxes	% of GDP														
Environmental taxes	3.4	2.4	2.1	2.4	2.4	2.0	1.9	2.1	1.8	1.9	2.0	1.9	1.9	24	2.6
Energy	3.2	1.9	1.7	2.0	2.1	1.8	1.7	1.7	1.4	1.6	1.8	1.7	1.7	19	2.3
of which transport fuel taxes	:	:	:	:	:	:	:	1.3	1.3	1.6	1.6	1.4	1.5	17	
Transport (excl. fuel)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.3	0.2	0.2	0.2	24	0.2
Pollution/resources	0.15	0.36	0.34	0.28	0.16	0.11	0.09	0.02	0.01	0.01	0.01	0.01	0.06	16	0.1
E. Property taxes	% of GDP														
Property taxes	0.7	0.7	0.7	0.7	0.7	0.7	0.8	1.0	0.8	0.8	0.8	0.8	0.8	19	1.0
Recurrent taxes on immovable property	0.5	0.6	0.5	0.5	0.5	0.5	0.6	0.7	0.6	0.6	0.7	0.7	0.6	15	0.8
Other property taxes	0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	24	0.2
F. Implicit tax rates	%														
Consumption	17.0	15.6	16.2	17.7	16.4	17.9	17.8	18.0	17.7	16.9	18.1	20.3	20.9	15	
Labour employed	33.6	31.2	31.2	29.7	29.1	28.1	30.1	30.2	27.3	28.6	30.0	33.0	30.4	21	
Capital	:	:	:	:	:	:	:	:	:	:	:	:	:		
Capital and business income	:	:	:	:	:	:	:	:	:	:	:	:	:		
Corporations	:	:	:	:	:	:	:	:	:	:	:	:	:		
Households	:	:	:	:	:	:	:	:	:	:	:	:	:		
Real GDP growth (annual rate)	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-6.6	-1.1	2.2	0.7		

(1) The ranking is calculated in descending order. A '1' indicates this is the highest value in the EU-28. No ranking is given if more than 10% of data points are missing.
(2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

Source: DG Taxation and Customs Union and Eurostat (online data codes: gov_a_tax_ag, gov_a_tax_str and gov_a_tax_itr)

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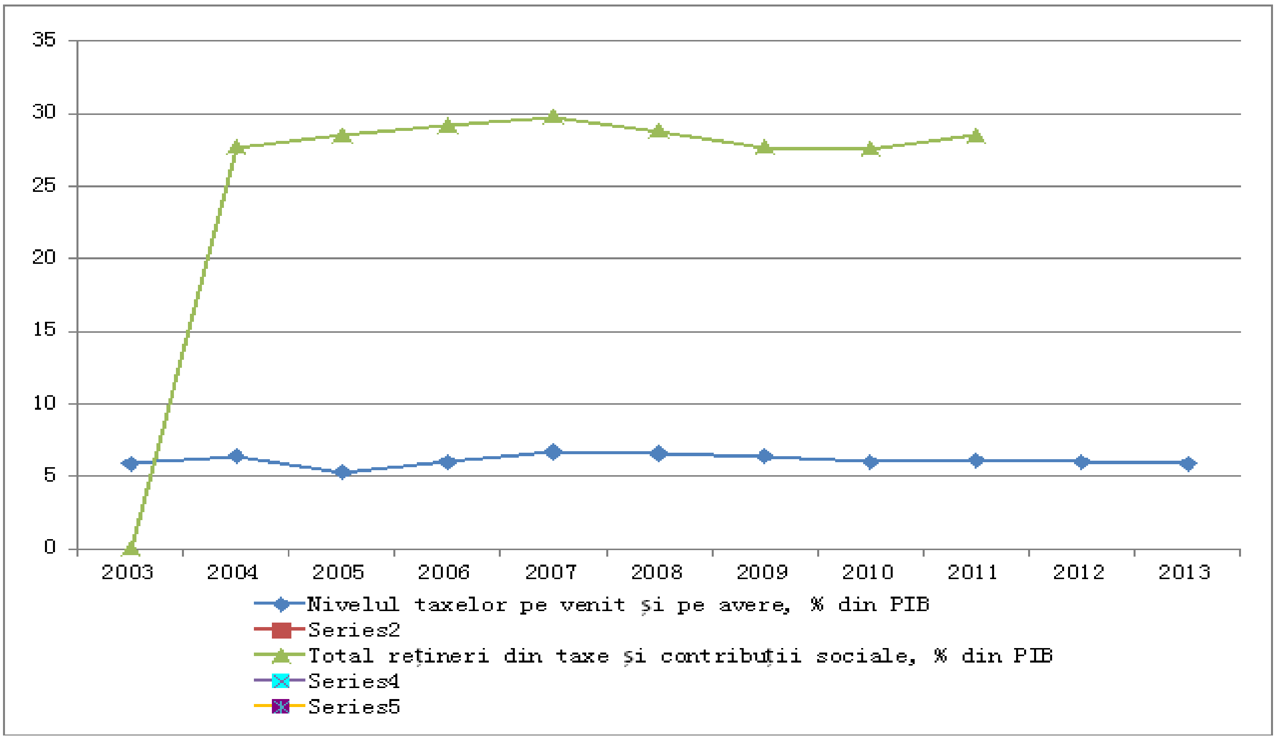

Source: Own authors contribution

5. Charging in Europe

The tax burden in Europe ranges from less than 30% - in countries such as Romania, Bulgaria, Latvia and Ireland (28.7%), to over 40%: Denmark (48.1%), Belgium (45.4%), France (40.5%), Sweden (44.2%), Finland (44.1%), Italy (44%) and Austria (43.1%). Between 2011 and 2012, the share of taxes in GDP increased by more than one percentage point in Hungary (from 37.3% to 39.2%), Italy (42.2% to 44%), Greece (32, 4% to 33.7%), France (from 43.7% to 45%), Belgium (from 44.2% to 45.4%), and Luxembourg (from 38.2% to 39.3%) following the undertaking of efficiency measures of the degree of collection and evasion of eradication practices. There are countries where the collection rate fell amid job losses or fiscal easing to stimulate business: Portugal (from 33.2% to 32.4%), UK (35.8 % to 35.4%) and Slovakia (28.6% to 28.3%).

The largest share of tax revenues in Europe have had on labor taxes in most European countries, but Romania is not among them. In the EU 28, more than half of the tax revenues come from the work ones: 51%, followed by consumption taxes - 28.5% and taxes on capital - 20.8%. Most labor taxation is in Sweden - 58.6%, followed by the Netherlands - 57.5%, Austria - 57.4% and Germany - 56.6%. The lowest employment taxes apply in Bulgaria - with a share of 32.9%, Malta - 34.6%, Cyprus - 37.1% and the UK - 38.9%.

On the other hand, consumption taxes had the largest share of GDP in four European countries: Romania, Bulgaria, Croatia and Malta. In Bulgaria, the share of these taxes accounted for more than half of the revenues from taxes, 53.3%, in Croatia the ratio reached 49.1% and 45.1% in Romania. On the opposite side was Belgium, with a share of taxes on consumption to 23.7% of GDP, France and Italy - 24.7% of GDP. Clearly, taxes on capital had the lowest share of taxes and revenues collected only in Luxembourg, UK, Malta Cyprus they are above 25% and in Estonia Slovenia they are below 10%.

The need to improve taxation at EU level is required in order to create financing facilities for a number of programs with long-term impact on the community, through the Europe 2020 objectives, of the implementation of the principles of sustainable development of society.

The EU emphasizes the importance of pursuing fiscal consolidation in a growth friendly, differentiated manner. This characteristic was reflected in the tax-related priorities of the EU: "tax should be designed to be more growth-friendly, for instance by shifting the tax burden away from labor on to tax based linked to consumption, property and combating pollution".[4]

Table 2. Taxes on income in the EU-28

Tax revenue

	Tax revenue, % of GDP			Tax revenue by type of tax base as a % of total tax revenue*:								
				Labour			Consumption			Capital		
	2002	2011	2012	2002	2011	2012	2002	2011	2012	2002	2011	2012
EU28**	**38.8**	**38.8**	**39.4**	**50.8**	**50.9**	**51.0**	**28.8**	**28.9**	**28.5**	**20.7**	**20.4**	**20.8**
EA18**	**39.5**	**39.5**	**40.4**	**53.0**	**53.3**	**53.3**	**27.4**	**27.3**	**26.8**	**19.8**	**19.8**	**20.2**
Belgium	45.2	44.2	45.4	54.9	54.6	53.9	24.2	24.1	23.7	20.6	20.8	22.0
Bulgaria	28.5	27.3	27.9	41.8	33.8	32.9	41.6	51.9	53.3	16.6	14.3	13.8
Czech Republic	34.6	34.6	35.0	52.9	51.9	51.7	27.9	32.9	33.4	19.3	15.2	14.9
Denmark	47.9	47.7	48.1	54.5	51.3	51.0	33.0	31.5	31.0	12.8	17.6	18.4
Germany	38.9	38.5	39.1	60.7	56.0	56.6	26.8	28.2	27.6	12.5	15.8	15.9
Estonia	31.0	32.3	32.5	54.5	52.1	51.0	38.4	41.3	41.9	7.1	6.6	7.1
Ireland	28.3	28.2	28.7	35.3	43.0	42.7	38.8	34.8	34.8	26.0	22.2	22.5
Greece	33.7	32.4	33.7	38.3	36.5	41.9	36.7	38.6	36.3	25.0	25.0	21.8
Spain	34.1	31.8	32.5	48.1	55.0	53.0	27.7	26.8	26.5	25.7	20.9	22.9
France	43.3	43.7	45.0	51.5	52.3	52.3	26.2	25.2	24.7	22.9	23.2	23.6
Croatia	37.9	35.3	35.7	38.9	41.4	40.7	50.5	47.3	49.1	10.7	11.3	10.3
Italy	40.5	42.4	44.0	49.9	52.0	51.1	26.1	25.3	24.7	23.9	22.7	24.2
Cyprus	30.9	35.3	35.3	32.5	35.7	37.1	38.5	36.2	36.8	29.0	28.1	26.1
Latvia	28.6	27.6	27.9	51.7	50.0	49.0	36.7	38.3	38.4	11.6	11.7	12.6
Lithuania	29.1	27.4	27.2	50.8	46.4	46.5	40.1	41.1	39.8	9.7	12.7	13.9
Luxembourg	39.3	38.2	39.3	38.5	44.2	44.3	27.3	27.8	28.1	34.2	28.0	27.5
Hungary	38.0	37.3	39.2	50.3	47.3	46.4	37.0	39.1	40.0	12.6	13.6	13.5
Malta	30.0	33.0	33.6	36.9	33.5	34.6	39.3	40.2	38.8	23.8	26.3	26.6
Netherlands	37.7	38.6	39.0	49.7	56.3	57.5	30.2	28.8	28.3	20.1	14.9	14.2
Austria	43.6	42.2	43.1	55.2	56.7	57.4	28.5	27.9	27.6	16.5	15.6	15.2
Poland	32.7	32.3	32.5	41.1	38.4	40.4	36.3	39.1	36.3	23.7	22.9	23.7
Portugal	31.4	33.2	32.4	37.7	41.7	41.4	38.1	36.6	37.4	24.2	21.6	21.1
Romania	28.1	28.4	28.3	43.9	39.3	40.0	38.9	44.2	45.1	17.2	16.4	15.0
Slovenia	37.8	37.2	37.6	54.3	52.2	52.5	36.1	37.3	37.9	9.7	10.6	9.8
Slovakia	33.0	28.6	28.3	45.8	44.1	45.4	32.7	36.2	33.4	21.4	19.7	21.2
Finland	44.7	43.7	44.1	52.2	52.3	53.2	29.9	32.3	32.4	17.9	15.4	14.3
Sweden	47.5	44.4	44.2	62.5	57.5	58.6	26.7	28.9	28.4	10.8	13.7	13.0
United Kingdom	34.8	35.8	35.4	38.6	39.1	38.9	33.0	33.2	33.8	28.4	27.7	27.4
Iceland	35.2	35.9	36.8	:	:	:	37.6	34.6	35.0	:	:	:
Norway	43.1	42.7	42.2	43.2	40.7	41.5	29.7	25.8	25.7	27.1	33.5	32.8

* Shares may be more than 100% for Member States, where a recording of amounts assessed but not collected is chosen to approximate accrual. Please refer additionally to methodological notes in Annex B of the Taxation trends publication.
** EU28 and EA18 aggregates are calculated as GDP-weighted averages of the Member States.
: Data not available

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6. Conclusion

Shaping the image of this painting leads to the identification of an adjustment in the EU-28 in terms of budget revenues, labor productivity, efficiency and economic competitiveness. Thus, as the system-level economic activities are onerous legal, the economic act surface, the level of budget revenues are higher, both in terms of direct taxation and indirect taxation, with an advance of direct taxation on the indirect one. This element leads to enforcement of a fiscal discipline as a measure to boost economic acts, on the one hand, and to improve the process of redistribution of revenues, as a measure of socially action to minimize societal gaps.Therefore, fiscal policy plays an important role in ensuring societal balance, both by obtaining a consensus among the economic environment, the manufacturer of income, and state, as a distributor of revenue and in the efficiency of the maximizing utility function of public goods provided by the state in its entirety and financed or supported by money from direct and indirect taxation.

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