Tax reforms in EU Member States subce rhe turn of the New centuri: selected observations

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Tax reforms in the EU Member States since the turn of the new century: selected observations

By

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Abstract
The aim of this paper is to discuss certain critical aspects of the tax reform process that has been taking place in the EU MS since the beginning of the new century. Two separate periods may be identified here. The first -from 2000 to 2011- witnessed very few tax reforms: according to the EU Commission itself, tax reforms were episodic, sparse and generally of a limited nature, To check this hypothesis, the present paper analyzes tax trends during the period 2000-2011, both at aggregate EU level and by disaggregating such trends into those pertaining to each EU MS. In the wake of the great economic crisis, there has been a broader process of tax reform in almost all EU Member Countries, albeit characterized by a reluctance to accept the tax reforms that the European Commission has been recommending to certain specific countries for a number of years now. The final, concluding issue dealt with briefly in this paper, is that of the various obstacles to tax reforms, starting from a recent OECD study of the matter.

JEL Code: H2, H20, H24, H25
Key words: Taxation policy, Tax reforms, EU Member States

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1. *Introduction*

Tax reforms in EU Member States have attracted the attention of scholars for several years now (as recently witnessed by publication of 'The Meade Report' and 'The Mirrlees Review'). In the wake of the recent severe economic crisis, the EU Commission and the OECD have also entered the tax policy debate. Their aim has been to encourage Member Countries to introduce reforms which they believe can lead to a combination of economic recovery and fiscal consolidation. Consequently, we may divide the first years of the new century into two periods. The first period, extending from -2000 to 2011- did not witness a great number of tax reforms: according to the EU Commission itself (2013b), tax reforms were episodic, sparse and generally of a limited nature, albeit with certain exceptions such as Germany among the western countries, and the Slovak Republic among the eastern ones (for all, see: Bernardi, 2009). The second period refers to more recent years (2012 and 2013) during which many reforms (about 100) were implemented, albeit only sporadically in line with the Commission' recommendations. This has to be attributed, at least in part, to certain unconvincing features of the Commission's recommendations. However, traditional obstacles to tax reform have also been at work. The aim of this paper is to discuss the aforementioned aspects of the European tax reform process.

In the first section, we consider the 2000-2011 period for which the Commission does not provide any information as such[1] on the entity of the reforms[2]. We shall try to establish whether the tax reforms introduced over the period under consideration have had any significant impact on the fiscal trends and structures of the EU Member States. This section then goes on to specifically verify whether or not tax trends from the year 2000 until 2011 (the last Eurostat figures available) have been affected by the tax changes adopted during this period. The analysis is performed first at EU 27 aggregate level, and then at the level of individual EU 27 Member States, whilst checking for any possible aggregation bias.

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[1] In fact, the Commission (2013c) states that '*it is difficult to estimate the overall impact of tax reforms taken by MS*'.

[2] Broadly speaking, the term 'reform' is somewhat abused, especially by the EU and the OECD, which apply it also to very small tax changes, For 'reforms' as conceived within the OT environment, see Boadway, 2012, for all.

The second section first offers a brief presentation of the EU Commission's report on the tax reforms implemented in 2012-2013, and then looks at the reform process from another interesting point of view worthy of due attention. It examines the EU MS' compliance with the Commission's tax reform guidelines. It does so by exploring individual countries' responses to the specific tax policy recommendations the Commission has sent the EU MS for two years, which if applied should also have changed those states' tax structures and tax trends. We submit that the majority of tax reforms adopted by member states appear of a limited entity, and have not been in line with the Commission's recommendations. The last section of the paper is devoted to a short, general discussion of the various economic, institutional and political obstacles to tax reform, starting from a recent OECD study of the matter.

2. *2000-2011: Just marginal and episodic tax reforms*

According to the EU Commission (2013b and 2013c), since 2000 to 2011 tax reforms in EU Member States were sparse, generally of limited amount, and rather episodic, albeit in some countries (e.g. Germany for the "Old" Member States and Slovak Republic for the "New" (2004) ones. See Bernardi, 2009). Therefore the taxes trends' remained almost unchanged. To begin with, let us look at Figures 1 and 2, showing trends in total taxes and in their main structure (direct and indirect taxes and social security contributions) for all EU MS, as percentages of GDP, from 2000 to 2011[3].

FIGURE 1 HERE

FIGURE 2 HERE

Overall, the trends of taxes as percentages of GDP look relatively flat, albeit subject to the main cyclical movements (Bernardi, 2011; EU Commission, 2013a; and Hemmelgarn and Nicodème, 2010), during the most difficult years of the ongoing economic crisis[4]. Total taxes (Figure 1) display only broad ups and downs (contained within an interval of no more than 2 GDP points). These ups and downs seem to reflect the business cycle in the EU, first showing a decrease at the

[3] The long-term trends of the tax systems in EU member states (both Old-MS and New-MS) are analyzed in depth in Bernardi and Profeta, 2004 and in Bernardi, Chandler and Gandullia, 2005. See Tanzi, 2011 and 2012, for a more recent analysis of the question.

[4] In fact the variation's coefficient is very low for the entire 2000-2011 series: 0.016 for total taxes, 0.041 for direct taxes, 0.016 for indirect taxes and 0.015 for social security contributions.

turn of the new century, a time of European depression. They then rise during the years of recovery of the EU economies up until 2006-07. The crisis led to a fall in total taxes from 2008 up to 2010. An upswing was then witnessed in 2011. This, in turn, is one effect of the tax increases implemented by many countries in order to consolidate their public finances and to render them sustainable (EU Commission, 2013a; Princen and Mourre, 2013). As for the tax structure, one may note the different reactions of the various taxes to the economic cycle (Bernardi, 2012 and quotations herein): the stability of indirect taxes from the beginning to the end of the period in question; the broader changes in direct taxes - due to their elasticity of more than 1 to the economy's cyclical movements - while social security contributions remained virtually flat until the beginning of the crisis, before increasing between 2007 and 2009, and then once again returning to a substantially flat trend in the 2010-2011 period[5].

Moving on now to the numbers, Table 1 shows that total taxes from 2000 to 2011fell by 1.7 GDP points, owing almost exclusively to the fall in direct taxes (-1.3 percent)[6]. Indirect taxes fell by just 0.3 points, while social security contributions went to their initial level recorded in 2000.

TABLES 1 AND 2 HERE

As for the main taxes' trends (Table 2), it is worthwhile noting the fall in PIT and CIT (the latter falling more than PIT as a percentage of the respective figures for 2000), while there were negligible changes in the main indirect taxes, especially in that of VAT. Once again this may be accounted for by the aforesaid greater economic-cycle elasticity of direct taxes compared with indirect taxes, and by the greater persistence in time of direct tax shifts, due in part to tax assessment and collection procedures.

If we now look at the shares of total taxes (Tables 1 and 2, again), the picture we get of both direct and indirect taxes tends to reflect the GDP percentages, taking account both of the fact that the ratios' bases are now approximately one half of GDP, and of possible composition effects. The social security contributions show an increase, however it is in some share due to composition effects. Therefore the changes of the main taxes as percentages of total taxes generally mirror the changes of the same taxes as percentages of GDP.

[5] This trend may be explained by considering that also institutional factors decouple social security contributions from the cycle of the economies.

[6] The aggregated direct taxes' fall -as GDP percentage- may be due also to the entrance of (2004) New Members into the EU.

To sum up, it is worthwhile to note that -a part from the said taxation's ups and downs during the worst years of the great crisis and after eleven years- the general perception of European taxation eleven years on substantially sees a return to the situation in place at the beginning of the new century[7]. Therefore, in particular and at least at aggregated levels there is no evidence of a widespread shift from direct to indirect taxes (Bernardi, 2013 and EU Commission, 2013c. See also below).

However, at this point a further check seems needed in order to discover whether there is any aggregation bias in the data we have considered up to now. Such a bias will emerge if those countries characterized by significant tax changes, albeit of opposing signs, during the period 2000-2011, prevail.

TABLE 3 HERE

The figures shown in Table 3 check for such bias by distributing the changes in total taxes and in tax structures, in terms of amounts and of countries, which took place between 2000 and 2011. The resulting evidence is straightforward and does not confirm the hypothesis of aggregation bias, as for the most part the tax changes seen in individual countries were quite moderate. In particular, the majority of total tax changes (47 out of a total of 81changes in the EU MS' three main categories of taxation) fall within the range of -1/0 to 0/+1 GDP points. These are followed by those changes (22/81) which fall within the 1 to 2 absolute GDP points range, while the changes in excess of 2 absolute GDP points (12/81) are in the minority. As for the structure of the taxes in question, the changes tend to follow the aforementioned distribution of total changes in an even manner. The changes within the -1 to +1 GDP points range prevail, and account for around 15 out of a total of 27 countries in the case of direct (17/27) and indirect taxes (14/27), and also with regard to social security contributions (16/27). The changes in individual taxes that fall within the -1 to -2 GDP points range, and within the 1 to 2 GDP points range number approximately 8/27, whilst the individual taxes absolute changes over and below 2 GDP points account for no more than 4/27 changes.

[7] At the beginning of the new century, S. Cnossen (2002) wrote a seminal paper in which the flaws of European tax systems were carefully analyzed and proposals for reforms were suggested. Within the proposed package of reforms, the study of a European CIT represented the only real step forward. Note that in Cnossen's proposals the suggestion was made that consumption tax rates be included when evaluating the labour tax wedge (see Picos - Sànchez, 2011, for a recent estimation).

Therefore, we may conclude this section by stating that the reforms of the EU's tax systems introduced between 2000 and 2011 were largely of a limited nature, that is, they have proven incapable of significantly changing most current tax trends.

3. *20121-2013: tax reforms in EU countries, EU recommendations for tax policy and countries' responses*

According to the EU Commission, in 2012 and 2013 a wide range of tax reforms have been implemented (EU Commission, 2013b)[8]. These reforms are presented by the Commission in the form of a very detailed list enumerating approximately 100 tax measures. These measures are not set out according to the basic traditional administrative tax structure (i.e. direct, indirect taxes and social security contributions), but with reference, instead, to the targets of those tax reforms that the Commission itself has been recommending for some years now. The main conclusions are as follows[9].

With regard to the taxation of labour, some Member States have reduced Personal Income Tax (PIT)'s rates, especially the top and bottom ones, whilst other countries have increased PIT rates and/or bases, or have introduced certain surcharges on higher incomes in order to stabilize revenue negatively impacted by the economic crisis, and to have room to alleviate the burden on lower wage-earners. On the other hand, many countries have adopted targeted tax relief for those groups characterized by the greatest labour supply elasticity (second earners) and/or at considerable risk of poverty. There have also been increases in social security contributions. The broadening of tax bases has been carried out in more than one country, especially with regard to Value Added Tax (VAT), both by broadening application of the standard rates, and by restricting room for reduced rates, exemptions and zero-rating regimes (Copenhagen Economics, 2008). Some countries have introduced the ACE and/or various limits to the deduction of interest, in order to address the debt bias within the Corporate income Tax (CIT) (Fatica et al., 2012 and de Mooij and Devereux, 2009). Moreover, several countries have increased R&D subsides within the CIT, the basis of which has been limited in certain countries in order to enhance international competitiveness. Environmental taxes (Kosonen, 2012) have been slightly raised and restructured[10] in several countries. Property taxation has been revised in the majority of countries, particular in terms of the reduction in the deductibility of mortgage interest from PIT and of increases in progressivity of tax rates.

[8] For the difference in the tax reforms in the 15 MS EU and in the New (2004) MS, see Bernardi, 2009.
[9] A summary of 2012-2013 tax reforms in EU Member States is reported in Table 2.1 (p. 20) of the EU Commission, 2013b.
[13]By trying to keep prices in line with energy and carbon contents.

Such reforms did not always follow EU Commission's Tax policy recommendation and this issue deserves a due attention. For example, in May 2013[11] the European Commission (EU Commission, 2013c) concluded the third European semester (http://ec.europa.eu/europe2020/making-it-happen/index_en.htm) by reviewing the previous year's accomplishment of the Country-Specific Recommendations (CSRs) on tax policy sent to the Member States as part of the Annual Growth Survey (AGS). The objectives of the CSRs were strictly linked to the tax policy priorities that the Commission has been promoting for several years (EU Commission, 2013b and 2013c)[12], whilst ignoring certain criticisms recently raised by the academic world (see below). In the Commission's words, the 2012 AGS contained the following tax-related priorities[13].

- *Shift taxation away from labor, in countries where it is particularly high and limits job creation.*
- *Raise additional revenue by broadening tax bases, rather than increasing taxes or creating new ones.*
- *Reform real estate and housing taxation to prevent the recurrence of financial risks in the housing sector.*
- *Improve tax compliance.*
- *Reduce corporate tax debt bias.*

Of course, the EU MS' failure to successfully implement the suggested reforms implies consolidating, rather than changing, the tax systems' current trends, and this is exactly what has happened.

TABLE 4 HERE

Let us now look at Table 4, we have to underline that a large majority of the 2012 tax policy CSRs were not adopted by the EU MS, and subsequently they were reiterated for the year 2013. More specifically, the ratios of the reiterated CSRs to the total issued in 2012 are as follows: Labour taxation 9/11; Base broadening 6/7; Environmental/Health 11/11; Property taxation 8/12; Compliance 7/9; Debt bias 2/3.

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[11] Just after completion of this paper, the Commission issued the 2014 CSRs, which are not very different from those issued in 2013, although the number of recipient MS has grown. http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm.

[12] Not dissimilar to the OECD's recommendations (2010), while OT theory underlies, to a greater extent, the recommendations of the "*Mirrlees Review*" (Johnson and Myles, 2011) which concerns the overall design of the (British) tax system and not just marginal tax reforms. See Bernardi (2009) for a summary of these different approaches to tax reform.

[13] Notwithstanding their exclusion from the list of tax policy priorities, environmental and health concerns, as well as competiveness, gave rise to several CSRs in 2012.

The poor implementation of the EU's tax policy recommendations could initially, and rather tentatively, be attributed to the fact that at least some of such suggestions have been seen as controversial by recent literature, and/or are self-defeating to a certain degree (see also the following section). Thereafter, we shall shortly be examining the possible criticisms which may be aimed at the EU's tax policy CSRs. The recommendation to shift taxes from labour (and corporate income) to consumption, property and environmental resources is certainly not new for the EU Commission (or the OECD), and is designed to reduce the tax disincentive to work, and thus boost employment[14]. This supply-side effect may particularly emerge in the long run - albeit not to a great degree[15]-, whilst in the short run the demand and redistributive effects of the tax shift may prove to be negative[16]. Firstly, the tax shift may produce an "internal fiscal devaluation" the positive effects of which on aggregate demand are, however, only temporary. Secondly, the de-multipliers' values may be higher for consumption taxes than for labour taxes. Finally, real incomes (especially those of low-income pensioners) fall as a result of increased consumption taxation, without any gain in terms of income tax. Bases' broadening[17] has been a "buzz-word" of tax reform at least since the 1980s, and dates back to the beginnings of optimal tax theory. However, if this process entails the restriction or removal of reduced VAT rates, it will have a regressive effect which requires compensating (see next section). The financial risks of housing taxation became evident during the economic crisis[18], however any increase in such is highly unpopular and may result politically difficult to push through. Increased compliance[19] is a relatively new target of the EU recommendations on tax policy. It is of particular importance in countries (like Italy) where corruption and the black economy are rampant, but is consequently not going to be an easy task. Reducing the corporate tax debt bias may prove to be useful in restraining corporations' debt

[14] Once again the Commission's prescriptions are based on alleged empirical evidence. This time they are drawn from Arnold et al. (2011) and from Acosta-Ormaechea and Yoo (2012).

[15] Given the aforesaid low elasticity of the total labour supply.

[16] See, for all, Bocconi University-Econpubblica (2011) and, more briefly, Bernardi (2013). See also EU Commission CPB (2013d).

[17] On this point, the Commission's view is that most tax systems contain various exemptions, allowances, reduced rates and other specific favourable regimes, known as 'tax expenditures', which are not always justified and can be inefficient.

[18] Apart from the financial market implications, the review of (and increase in) property taxation is suggested by the Commission as a way of raising revenue in a growth-friendly manner.

[19] According to the Commission, tax compliance has fallen as a result of the economic crisis. Thus the existing problems of tax evasion and avoidance have become increasingly salient, visible and urgent. The most recent estimate (CPB Netherlands Bureau for Economic Policy Analysis, 2011) of the VAT gap in the EU 27 remains at almost 200 billion Euro.

leverage and (slightly) improving their capitalization[20], although it is more effective when financial market display low volatility.

TABLE 4 HERE

Some other interesting insights may be gleaned from the data reported in Table 4. A significant 53 CSRs were made in 2012. This would seem to imply that the Commission sees the need for the radical reform of the European tax systems. However, the ranking of countries in terms of the number of CSRs received, does not seem to follow any particular order, either with regard to their degree of development, or to their institutions, or to the specific structure of their tax systems. For example, apparently no distinction has yet to emerge between the "Old" and "New" (2004) EU MS. Therefore, the number of CSRs sent to various countries alone does not seem to constitute any clear indicator of the gap between their own tax systems and the Commission's tax preferences. In fact, the rows in Table 5 show that the number of CSRs sent to the various countries varies considerably and in a quite heterogeneous manner; thus the maximum number of CSRs (5) was sent to five countries[21], while other countries did not receive one single CSR[22]. The remaining countries lie somewhere in between, having received four[23], three[24], two[25] or one[26] of the Commission's CSRs.

TABLE 5 HERE

On the other hand, if we classify the CSRs by target, they may be grouped together (see the columns in Table 5) into a small number of clusters reflecting the said ranking of fields where the European tax systems appear to have more problem issues (and/or remain some way from the EU Commission's tax policy priorities, as we have mentioned): property taxation, twelve[27] CSRs; shift away from labour taxation, eleven[28]; environmental/health, again eleven[29]; compliance, nine[30]; base

[20] Moreover, and once again in the Commission's view, taking on debt may also erode the tax basis though international profit shifting, and may penalize innovative companies and start-ups financed though equity-raising operations

[21] Spain, France, Hungary, Italy and Slovak Republic.

[22] Finland, Slovenia, Portugal, Greece, Romania, Ireland, and the United Kingdom.

[23] The Czech Republic.

[24] Austria and Sweden.

[25] Belgium and Germany.

[26] Lithuania, Denmark, The Netherlands, Bulgaria, Cyprus, Poland and Malta.

[27] Austria, the Czech Republic, Denmark, Hungary, Italy, Latvia, Lithuania, the Slovak Republic, France, The Netherlands, Spain and Sweden.

[28] Austria, Belgium, the Czech Republic, Germany, Estonia, Spain, France, Hungary, Italy, Latvia and the Slovak Republic. Note, however, that the distorting effect of labour taxation on labour supply and demand is often overstated in

broadening, seven[31]; and, finally, debt bias, three[32]. To conclude, one may intersect the information given in both the rows and columns of Table 5 to obtain an indicator of how many, and what kind of, tax reforms a country needs according to the Commission.

4. *General* o*bstacles to tax reform, and the OECD's 2010 study*

Tax reforms in EU Member States may also have been curbed by general obstacles which counteract the adoption of tax reforms. This multifaceted issue has been a constant object of study in tax literature, and one that the OECD (2010) has recently[33] put in the form of a single study. These obstacles have been separated into those pertaining to the design of the various tax systems, and those raised by institutional and/or political-economic factors (Table 6). These obstacles to tax reform shall be shortly discussed hereafter.

TABLE 6 HERE

As regards the design of a tax system, the traditional argument is that taxes must meet several objectives[34], and these objectives may clash with one another, thus requiring difficult political choices to be made and curbing implementation of the reform process (see also Bird, 2004 and Messere, 1993). Moreover, there may be a trade-off between equity and efficiency which has, more or less, similar effects as the multiplicity of objectives. This point is constantly emphasized (possibly excessively so[35]) in the OECD's analysis which, however, provides more than one example of such. Efficiency requires that taxes be non-distortional, although they may affect certain social groups more than others, which will consequently impede reforms. The result is that the Tax Code makes provision for several tax expenditures called for by certain interest groups, which may

current debate, given the low values that empirical studies report for the *total* elasticity of the labour supply to taxes, which seems to prevail in the real world's labour market. On the other hand, higher elasticity seems to characterize low incomes, so that a progressive PIT does not increase the trade-off between equity and efficiency.

[29] Austria, Belgium, the Czech Republic, Spain, France, Hungary, Italy, Latvia, Lithuania, Luxembourg and the Slovak Republic.

[30] Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Italy, Lithuania, Poland and the Slovak Republic.

[31] Germany, Spain, France, Hungary, Italy, Sweden and the Slovak Republic.

[32] Malta, France and Spain.

[33] Note however that in the same study, the OECD also outlines strategies which may favour successful tax reform. Specifically, such strategies are: a clear strategic vision and solid tax policy analysis; framing tax policy debates when equity issues arise; advancing reform and *ex ante* constraints; *ex post* evaluation and international dialogue; the proper timing of reform; "bundling" reforms into comprehensive packages; incremental growth-oriented tax reforms; transitional arrangements.

[34] Theoretical motives, efficiency-equity, international constraints, expected yield, room for tax evasion, fiscal federalism, transition costs.

[35] E.g.: see our previous reference to the elasticity of the total labour supply.

prejudice the vertical and horizontal efficiency and equity of tax measures. Furthermore, cutting PIT's top rates may be at odds with progressivity[36] and may favour the rich. Likewise, cutting CIT rates may also favour the rich; however, it should be pointed out that the OECD does not seem to take into consideration possible tax shifts - on workers and/or on consumers -that have been widely debated in the literature[37]. As far as regards VAT, any increases in the tax base (by eliminating existing exemption, by the space afforded to reduced rates, or by continuing to increase the standard rate) may be more burdensome for the poor[38]. As for real estate, a number of potential trade-offs and critical issues exist, including: application of the benefit principle or the principle of the ability to pay; the usefulness of personalizing the tax or not, in order to avoid any excess burden on the poor and on large households; the question of whether to tax or not first household. Finally, certain obstacles to tax reforms may emerge as a result of the general institutional features of the tax's design, including: fear of a drop in revenue and of increased tax evasion and avoidance; the constraints imposed by international treaties; intra-federal relations which entail tax-sharing formulae.

Moving on now to institutional, administrative factors, and to those resulting from the new political-economic approach (e.g. Profeta and Scabrosetti, 2010) which may hinder tax reforms, mention ought to be made first of all of transitional costs, which can be very high and can affect the tax administration and/or the tax payers. Furthermore, when considering those obstacles implied by the political-economic approach, one should not forget that tax reforms are embedded in the political process, through specific institutions (Persson and Tabellini, 2002 for all). In general, approval of any tax reform is a result of the parliamentary process, and this process may see a change in the initial reform targets (Hettich and Winer, 1999).

Moreover, budget-balanced tax reform unavoidably results in gainers and losers, so that during the reform bargaining process, the potential losers may well prevent it from going through, by means of either direct voting or the operation of pressure groups. Excess tax expenditure and a more complex tax system may then be witnessed (Alt, Prest and Sibieta, 2008; Profeta, 2003). Moreover, the lack of information will play a special part in hindering tax reforms, especially in the case of uncertainty over the reforms' future effects, distributional consequences and agents' responses. This introduces a *status quo* bias in the aptitudes of both mean and swing voters, and

[36]The income redistribution in favour of the rich resulting from a reduction in the top PIT rates, is discussed by the EU Commission itself in *Tax Policy* (2013) no. 520 and in Tanzi (2013).
[37] See, last and for all, *National Tax Journal* (2013).
[38] The choice for a single rate prevails in the literature and in the EU's tax policy recommendations. The adjustment traditionally proposed to avoid any regressive impact, is to couple VAT increases with a subsidy to the poor. See, for all, Johnson and Myles (2011) - inside the *Mirrlees Reviews*.

thus in political action (Fernandez and Rodrik, 1991). This may be particularly so in the case of the low visibility of taxation[39].

5. *Conclusions*

We begin this paper by observing that the tax reform process in EU Member States since the beginning of the 21st century may be divided into two periods. The first period began in 2000 and extended to 2011. The second period is from 2012 onwards.

The discussion of the first issue (the entity of the reforms in 2000-2011) analyzes the aggregated EU 27 tax trends and tax structures for the years 2000-2011. The main result, in fact, is that the GDP percentages of indirect taxes and social security contributions in 2011 were not that far off their original 2000 values. Only direct (and thus total) taxes lost a little ground, albeit no more than 1.3 GDP points. To avoid the influences of any potential countries' aggregation bias, we then examined the changes in individual taxes in each individual country, again for the period 2000 - 2011. Once again, changes in total taxation and in the structure thereof were in general fairly limited, that is, their mostly amounted to less than -1/+1 GDP percentage points. These findings lead us to conclude that the entity of the 2000-2011 reforms was generally quite limited.

The following issue (the reforms made during the period 2012-2013 and acceptance of the EU Commission's tax policy recommendations) is examined by analyzing the countries' responses to the Commission's 2012 national tax reform recommendations. We discuss the typology of such recommendations and their targets, and show that they are not always as self-evident as the Commission would seem to believe. However, the main result of our analysis is that to date, these tax reform recommendations have been largely ignored by the EU Member States.

The final issue, following previous analyses, points to the fact that the implementation of tax reforms is not an easy road to tread. More generally, the obstacles hindering tax reforms can be of several kinds and of a substantial nature, as the tax literature has been pointing out for a long time now. These obstacles are then shortly discussed in the last part of the paper, starting from a recent OECD study of the question. Factors concerning tax design are considered, together with factors pertaining to the institutional and political spheres. Just to give some examples, in the first case the main obstacles to tax reform seem to derive specifically from the multiplicity of objectives and

[39] The previous discussion, as well as the aforesaid EU prescriptions for tax reform, are largely - but not always - founded on the welfare economic approach, which is rejected by the 'traditional' public choice school (see, for all, the critical survey conducted by Guesnerie, 1977). This should call for tax reform models based on political choice (Buchanan, 1987 and Ilzetzki, 2014 for all).

trade-offs of tax systems, which may curb the reform process. In the second case, particularly relevant are those obstacles to tax reform which have emerged from the flourishing "new" political-economic approach.

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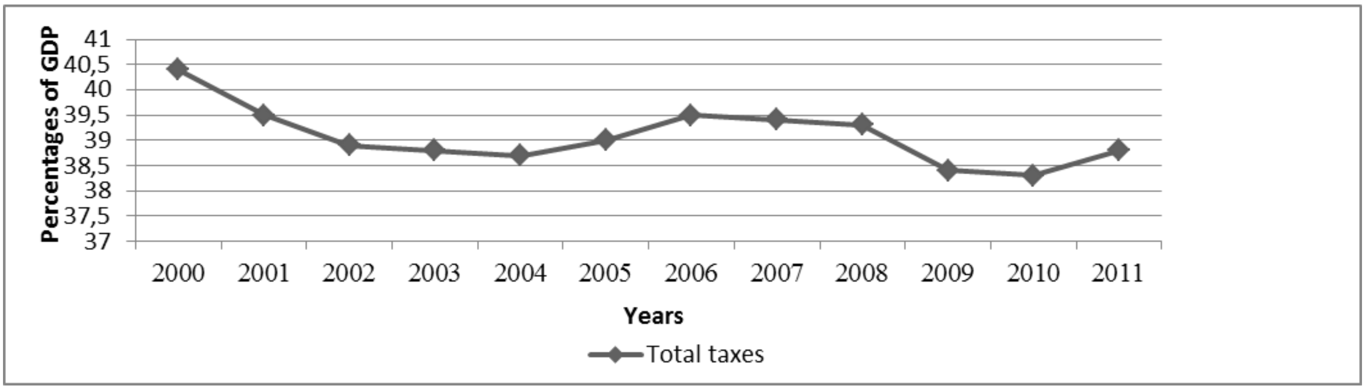
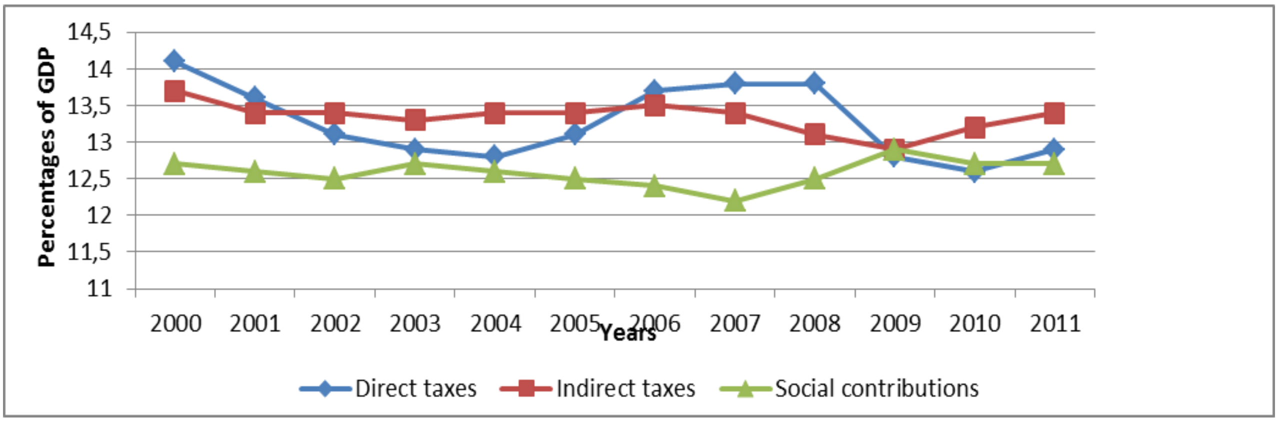
Figure 1 - Total taxes as a percentage of GDP - EU27 - 2000-2011



Source: EU Commission, 2013a.

Figure 2 - Structure of taxation as a percentage of GDP - EU27 - 2000-2011



Source*:* EU Commission, 2013a.

Table 1 - Structure of taxation, EU27 - 2000-2011 - Percentages of GDP and of total taxes				
	2000 % of GDP	2011 % of GDP	2000 % Total taxes	2011% Total taxes
Direct	14.1	12.8	34.8	33.3
Indirect	13.7	13.4	33.9	33.2
SSC	12.7	12.7	31.5	33.5
Total	40.5	38.8	100.0	100.0

Source: EU Commission, 2013a.
Notes: Weighted averages.

Table 2 - Main taxes, EU27 - 2000-2011 - Percentages of GDP and of total taxes				
	2000 % of GDP	2011 % of GDP	2000 % Total taxes	2011% Total taxes
PIT	9.8	9.1	24.3	23.5
CIT	3.1	2.5	7.7	6.4
VAT	7.0	7.1	17.3	18.4
Excise duties	3.0	2.7	7.5	6.9

Source: EU Commission, 2013a.
Notes: Weighted averages.

Table 3 - Structure of taxation, EU27 - 2000-2011 - Number of changes as percentages of GDP.

	<-2	-2/-1	-1/0	0/+1	+1/+2	>+2	*Total*
Direct	3	6	12	5	1	0	*27*
Indirect	1	6	9	5	2	4	*27*
SSC	3	4	6	10	3	1	*27*
Total	*7*	*16*	*27*	*20*	*6*	*5*	*81*

Source: Our calculations based on EU Commission, 2013a.

Table 4 -The EU Commission's Country Specific Recommendations on Tax policy sent to EU MS in 2012-13.

	Labour/Tax Shift	*Base Broadening*	*Environment /Health*
a) 2012	AT, BE,CZ,DE, EE, ES, FR, HU, IT, LV, SK	DE, ES, FR, EU, IT, SE, SK	AT, BE, CZ, ES, FR, HU, IT, LT, LU, LV, SK
b) 2013: reiterated	AT, BE,CZ,DE, FR, HU, IT, LV, SK	DE, ES, FR, EU, IT, SE,	AT, BE, CZ, ES, FR, HU, IT, LT, LU, LV, SK
b/a	9/11	6/7	11/11
c) 2013: other	NL, RO, DE, LV, HU	BE, UK, LU	RO
	Housing taxation	*Compliance*	*Debt Bias*
a) 2012	AT, CZ, DK, HU, IT, LV, LT, SK, FR, NL, ES, SE	BG, CY, CZ, EE, HU, IT, LT, PO, SK	MT, FR, ES
b) 2013: reiterated	AT, CZ, IT, LV, LT, SK, NL, SE	BG, CZ, HU, IT, LT, PO, SK	MT, ES
b/a	8/12	7/9	2/3
c) 2013: other	DE, SE	BE, ES, LV, MT, SL, RO	LU, SE

Source: Eu Commission, 2013c.

Table 5 - The EU Commission's Country Specific Recommendations on Tax policy by countries and by subjects, 2012.

	Labour/Tax Shift	*Base Broadening*	*Environment /Health*	*Housing taxation*	*Compliance*	*Debt Bias*
AT	X		X	X		
BE	X		X			
CZ	X		X	X	X	
DE	X	X				
EE	X				X	
ES	X	X	X	X		X
FR	X	X	X	X		X
HU	X	X	X	X	X	
IT	X	X	X	X	X	
LV	X		X	X		
SK	X	X	X	X	X	
SE		X		X	X	
LT			X	X		
LU			X			
DK				X		
NL				X		
BG					X	
CY					X	
PO					X	
MT						X

Source: EU Commission, 2013c.

Table 6 - Main obstacles to tax reforms according to the OECD.

Issues of tax policy design	*Issues concerning tax administration, institutions and the political economy*
Multiple objectives of tax systems	Tax administration issues
Efficiency and equity trade-off	The structure of the political process
-in general	Special interests
-with reference to specific taxes and to their possible shifting:	Uncertainty over distributional consequences
- CIT	The visibility of tax policy
- PIT	
- VAT	
- Recurrent taxes on immovable property	
Revenue and tax avoidance	
International rules	
Federal relations	
Transitional costs	

Source: OECD, 2010.