

Tax revenue in the EU

Down slightly to 40.7% of GDP

Statistics in focus

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Contents

Measurement of tax revenue 2

Trends in tax revenue up to 2004.. 2

Levels of tax revenue in 2004..... 3

Main categories of taxes and social contributions 3

Methodological notes 5

Compulsory levies in the form of taxes and social contributions accounted for around 90% of total government revenue in the EU-25 in 2004. Tax revenue paid to general government¹ fell slightly in 2004 to 40.7% of GDP, from 40.9% in 2003. The decline was more marked in the euro-zone where the ratio fell from 41.5% in 2003 to 41.1% in 2004.

Looking at the trend over the years 1995-2004, tax revenue in the EU-25 fell to its lowest level in terms of GDP in 2004 (see Figure 1). However, the most significant decrease was during the period 2000-2002, following the peak year of 1999 when the ratio of tax revenue to GDP had reached 42.4%.

The trend for the euro-zone over the same period follows closely that of the EU-25, but quite a different pattern emerges from the data for the new Member States (NMS-10). In these countries taxes are generally lower than in the EU-15, and during 1995-2000 there was a distinct fall in government tax revenue as a percentage of GDP in the NMS-10, after which there has been relatively little change.

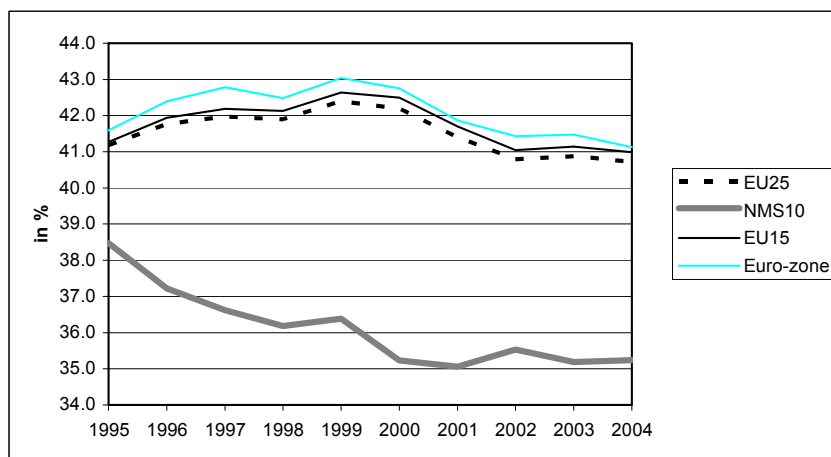


Figure 1: Total tax revenue in the EU as a percentage of GDP



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¹ Data are collected by Eurostat on the basis of the ESA 95 transmission programme, table 9, 'Detailed tax and social contributions receipts by type and receiving sub-sector'. General government comprises the sub-sectors central government, state government, local government, and social security funds. For the purpose of this publication the term 'general government' also includes the EU institutions.

Measurement of tax revenue

Taxation systems and social protection schemes show a wide diversity among EU Member States. Nevertheless the national accounts framework (European system of national and regional accounts, ESA 95) provides for an efficient and harmonised measure of taxation and social contribution payments in the European Union.

In 2001, the European Commission and Member States agreed on the definition of four indicators to measure general government tax revenue. This *Statistics in Focus* concentrates on the broadest indicator (Indicator 4) - see methodological box on page 5. It has been found that, comparing the four indicators, the trend in tax revenue is very similar. In terms of level of tax revenue, Indicator 4 is roughly one percentage point of GDP higher than the Indicator 2 measure.²

According to ESA 95, taxes and social contributions should be recorded on an accrual basis. In order to comply with this principle, Council Regulation 2516/2000 details the rules to be followed on the time of recording and the amounts to be recorded. Two methods can be used:

a) 'time-adjusted' cash – the cash is attributed when the activity took place to generate the tax liability or when the amount of taxes was determined in the case of some income taxes. This adjustment may be based on the average time difference between the activity and cash receipt;

b) a method based on declarations and assessments. In this case, an adjustment needs to be made for amounts assessed or declared but unlikely to be collected. These amounts have to be eliminated from government revenue, either by using a tax-specific coefficient based on past experience and future expectations or by recording a capital transfer for the same adjustment (ESA 95 code D.995) to the relevant sectors. It should be noted that these different recording options affect the presentation of the data by country.

For the purpose of this analysis the definition of tax revenue includes not only the revenue collected by the general government sector (ESA 95 code S.13) but also amounts related to taxes on production and imports (D.2) received by the EU institutions (S.212) via general government. EU institutions have started to collect tax revenue from the ten new Member States only in 2004.

Trends in tax revenue up to 2004

In the EU-25 as a whole tax revenue as a percentage of GDP has followed a downward trend since 2000, whereas the ratio for NMS-10 has shown little change. Total tax revenue by country for the years 1995-2004 is shown in Table 1 on page 6.

There are many reasons why government revenue from taxes and social contributions varies from year to year as a percentage of GDP. A much more in-depth analysis than the one presented here would be necessary to explain the causes of such variations in particular countries. However, in general the main reasons for differences in the amount of tax revenue recorded each year are changes in economic activity (affecting levels of employment, sales of goods and services, etc.) and in tax legislation (affecting tax rates, thresholds, exemptions, etc.). It should be noted that, even using accrual methods of recording, the effects of changes in legislation or economic activity tend to have a delayed impact on tax revenue.

Since the year 2000 significant declines in tax revenue as a percentage of GDP have occurred in Germany, Greece, the Netherlands, Slovakia, Finland, and Sweden. In Germany the ratio fell from a peak of 43.3% in 2000 to 40.0% in 2004. In the case of Greece and Finland the peak year was also 2000, the ratio falling

from 40.9% to 37.7% for Greece and from 47.9% to 44.5% for Finland. Nevertheless, in Greece revenue as a percentage of GDP was higher in 2004 than in the years 1995-97. In Slovakia tax revenue declined from 33.2% to 30.6% of GDP between 2000 and 2004, but the trend had in fact been clearly downward since 1995 when the ratio was 40.6%. In the Czech Republic a different strategy has been adopted, keeping the ratio more or less stable since 1995. There were less marked declines between 2000 and 2004 in the ratios of the Netherlands and Sweden.

Between 2000 and 2004 significant increases in tax revenue as a percentage of GDP were recorded in Cyprus and especially Malta. In the case of Malta the ratio was 36.7% in 2004 compared with 30.1% in 2000. In Cyprus the ratio moved up from 30.0% in 2000 to 33.7% in 2004, but the upward trend had already begun in 1997 when the ratio was 25.8%.

The data for Estonia show little change between 2000 and 2004, but this follows a sharp downward trend between 1995 and 1999, so that tax revenue in 2004 (32.7% of GDP) is much lower than in 1995 (37.9%). Similarly, taking a longer view of the Polish data, the ratio has fallen considerably from 39.4% in 1995 to 34.3% in 2004.

² For a full analysis of tax structures, see Eurostat-DG Taxud joint publication 'Structures of the taxation systems in the European Union', 2005 edition. Indicator 2 is used in this publication.

Levels of tax revenue in 2004

As Figure 1 shows, the amount of tax revenue as a percentage of GDP is much lower generally in the new Member States than for the EU-15 countries. The most notable exception concerns Ireland, with a ratio of 31.7% in 2004, below the NMS-10 average of 35.2%. Nevertheless, beneath the Irish level are Lithuania (28.7%), Latvia (29.1%), and Slovakia (30.6%). The new Member State with the highest level of tax revenue in terms of GDP is Slovenia, with 39.9%.

At the other end of the range are Sweden, with a ratio of tax revenue to GDP of 51.2% in 2004, followed by

Denmark (49.9%), Belgium (47.4%), and France (45.3%).

For the majority of the 25 countries the ratio comes within a range of 35-45% of GDP. Weighted by countries' GDP, the average level in the EU-25 is 40.7% in 2004. However, the median or middle value of the 25 countries is somewhat lower (37.7%, corresponding to the figures for Greece and the UK), because of the relatively low levels of GDP (and therefore low weight) in the countries which tend to have the lower ratios of tax revenue to GDP.

Main categories of taxes and social contributions

The three main components of tax revenue paid to general government are the following (ESA 95 classification codes in brackets): taxes on production and imports (D.2), current taxes on income, wealth, etc. (D.5) and actual social contributions (D.611). In 2004 these three components amounted to 39.5% of GDP and accounted for 97.0% of total tax revenue in the EU-25. With respect to GDP, government revenue from D.2 taxes in the EU-25 was equal to 13.8%, D.5 taxes 12.5%, and D.611 social contributions 13.1%.

These three components differ considerably in importance among the EU Member States in terms of tax revenue generated. National tax structures vary according to their emphasis on direct taxes on corporate and personal income, indirect taxes such as VAT, or social contributions. In the new Member States in general there is less reliance on direct taxes as a source of revenue: in 2004 D.5 taxes amounted to 7.9% of GDP, compared with 14.0% for D.2 taxes and 13.4% for D.611 social contributions.

Taxes on production and imports are split into taxes on products (D.21), which include value added taxes (VAT), and other taxes on production (D.29). In the EU as a whole, revenue from D.21 taxes represents over 80% of the total of taxes on production and imports. Revenue from taxes on products is highest in Denmark and Hungary, at 15.9% of their respective GDP, and lowest in Germany (10.1%), followed by Lithuania (10.7%).

In 2004 the new Member States started to transfer part of their revenue from VAT and other taxes on products to the EU institutions as part of their contribution to the

EU budget. This transfer was equivalent to 0.1% of the GDP of the NMS-10, compared to 0.3% of GDP for the EU-25.

Current taxes on income, wealth, etc. (D.5) include taxes on income (D.51) and other current taxes (D.59). D.51 taxes cover both individual or household income and the income or profits of corporations, including holding gains. Member States' revenue from taxes on income varies much more widely than their revenue from taxes on products. In 2004 revenue from D.51 taxes as a percentage of GDP amounted to 5.8% in Slovakia and 6.1% in Poland, compared to 19.0% in Sweden and 17.1% in Finland. However, revenue from D.51 taxes was easily the most important in Denmark, where it equalled 28.1% of GDP. This is explained by the fact that most welfare spending in Denmark is financed via D.51 taxes, and consequently the figures for actual social contributions are very low relative to other countries.

Actual social contributions (D.611) cover compulsory and voluntary contributions paid to government (mainly into social security funds) by employees, employers, the self-employed, and non-employed. They also include any amounts payable to government as an employer. Apart from the case of Denmark mentioned above, where D.611 social contributions were only 1.2% of GDP in 2004, they are relatively low in Ireland (4.6%) and Malta (5.9%). The highest ratios of D.611 to GDP are in Germany (16.8%) and France (16.3%). Therefore, as with taxes on income, revenue from D.611 social contributions varies widely among the countries.

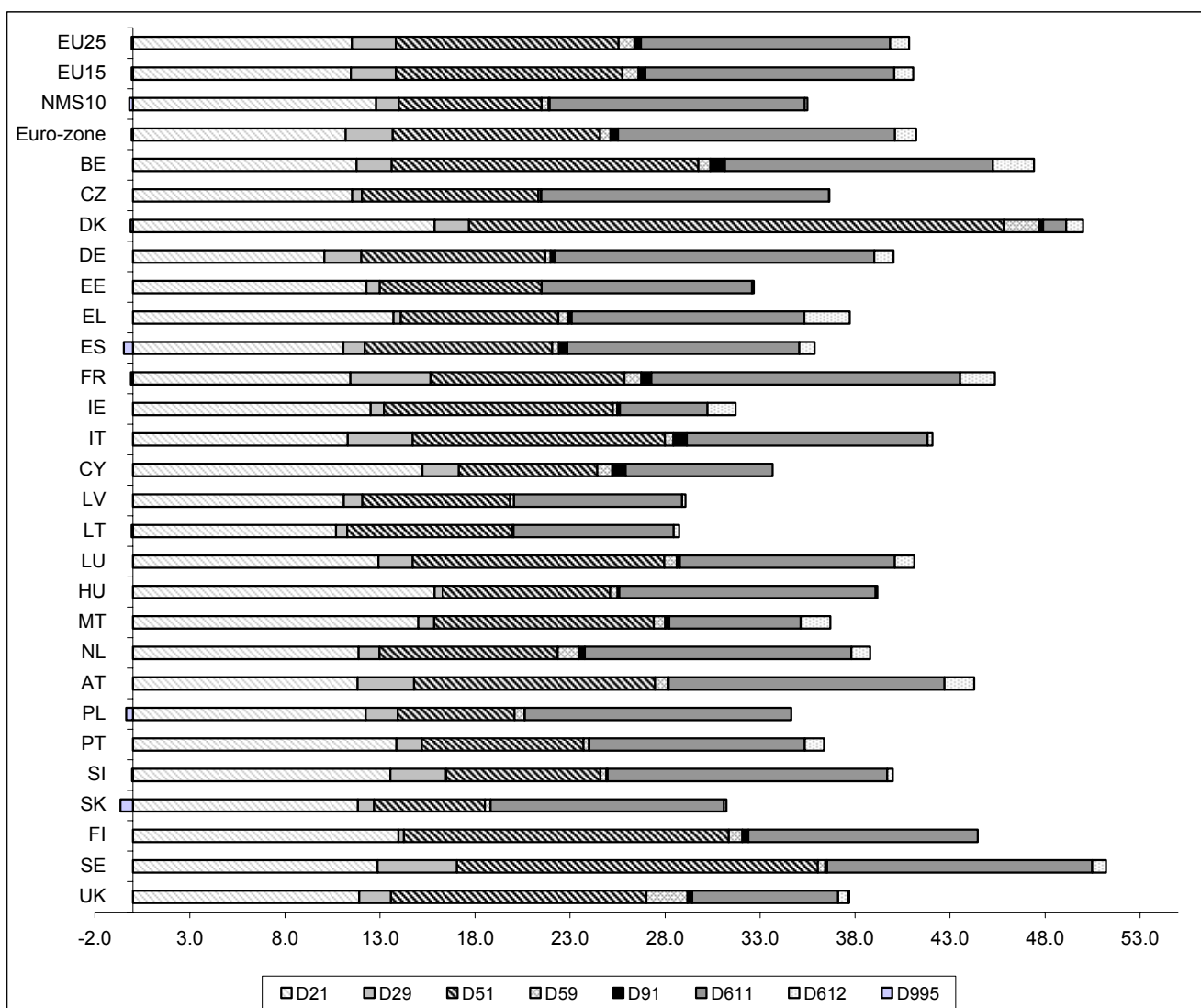


Figure 2: Breakdown of tax revenue by country and by main tax categories in 2004 (% of GDP)⁴

More detailed breakdowns of D.2, D.5, and D.611 by country are shown in Table 2 on pages 6 and 7.

Besides these three main components of government tax revenue, three relatively minor elements are included in the definition based on ESA 95: capital taxes (D.91), imputed social contributions (D.612), and capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected (D.995).

Capital taxes (D.91) refer to taxes levied at irregular and infrequent intervals on the value of assets or net worth owned, or transferred in the form of legacies or gifts. D.91 taxes amounted to 0.3% of GDP in the EU-25 in 2004, but just 0.1% of GDP in the NMS-10. The range is from 0.8% in Belgium and 0.7% in Italy and Cyprus,

down to less than 0.05% in the Czech Republic, Estonia, Lithuania, Poland, Portugal, and Slovakia.

Imputed social contributions (D.612) represent in the national accounts system the counterpart of unfunded social benefits provided by the government as employer. In 2004 imputed social contributions were equal to 1.0% of GDP in the EU-25, ranging from 2.4% in Greece to less than 0.05% in the Czech Republic.

Finally, for those countries implementing the assessment method of accrual recording (see page 2 for explanation of the different methods), capital transfers from general government to other sectors of the economy (D.995), representing taxes and social contributions assessed but unlikely to be collected, have to be deducted from tax revenue. In 2004, for EU-25 as a whole this adjustment was equivalent to 0.1% of GDP.

⁴ The negative amounts represent capital transfers to the relevant sectors, relating to taxes and social contributions assessed but unlikely to be collected (D.995). Data are not available for Latvia D.91 and Poland D.612. Data are not available for Portugal D.21, D.29, D.51, and D.59 for 2004: instead the ratios for 2003 have been used.

➤ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Definition of general government tax revenue

The definition used in this *Statistics in Focus* is Indicator 4, the broadest of four indicators defined by the Eurostat National Accounts Working Group in June 2001. This indicator covers fully the series reported under table 9 of the ESA 95 transmission programme. In particular it encompasses the wide diversity of social security systems in the EU.

The four Indicators are defined as follows (the codes in brackets refer to ESA95):

Taxes on production and imports (D.2)

+ Current taxes on income, wealth, etc (D.5)

+ Capital taxes (D.91)

- Capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected (D.995)

+ Compulsory actual social contributions payable to the social security funds (S.1314)

= Indicator 1

+ Compulsory actual social contributions payable to the central government (S.1311), state government (S.1312), and local government (S.1313) sub-sectors as employers

= Indicator 2

+ Imputed social contributions (D.612) payable to general government as an employer

= Indicator 3

+ Voluntary actual social contributions payable to the general government sector

= Indicator 4 (Total taxes and social contributions payable to general government, including those for government as an employer).

Key to tables and graphs

ESA 95 classification	Main tax categories
D2	TAXES ON PRODUCTION AND IMPORTS
D21	Taxes on products
D211	Value added type taxes
D212	Taxes and duties on imports excluding VAT
D214	Taxes on products, except VAT and import taxes
D29	Other taxes on production
D5	CURRENT TAXES ON INCOME, WEALTH, ETC.
D51	Taxes on income
D59	Other current taxes
D91	Capital Taxes
D2_D5_D91	TOTAL TAX RECEIPTS
D611	Actual social contributions
D6111	Employers' actual social contributions
D6112	Employees' social contributions
D6113	Social contributions by self- and non-employed persons
D612	Imputed social contributions
D995	Capital transfers from general government to relevant sectors representing taxes and social contributions assessed but unlikely to be collected
D2_D5_D91_D611_D612_M_D995	TOTAL RECEIPTS FROM TAXES AND SOCIAL CONTRIBUTIONS (including imputed social contributions) AFTER DEDUCTION OF AMOUNTS ASSESSED BUT UNLIKELY TO BE COLLECTED
:	Not available
-	Not applicable

Table 1: Total tax revenue by country, 1995-2004 (% of GDP)












	EU25	EU15	NMS10	Euro-zone	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK
1995	41.2	41.3	38.5	41.6	45.9	36.2	49.8	41.3	37.9	34.7	33.6	44.5	34.9	42.9	26.7	33.7	28.6	43.7	41.7	31.3	40.5	43.6	39.4	32.7	40.5	40.6	46.2	49.7	36.7
1996	41.8	41.9	37.2	42.4	46.5	35.2	50.1	42.3	35.6	35.1	34.0	45.7	34.7	43.2	26.4	31.4	28.1	43.8	40.6	29.9	40.8	44.8	38.1	33.5	39.1	39.1	47.5	52.1	36.3
1997	42.0	42.2	36.6	42.8	47.0	35.5	49.9	42.2	35.9	36.4	34.1	45.9	33.9	45.1	25.8	32.7	29.8	42.8	39.0	31.6	40.6	46.2	37.6	33.6	38.2	35.9	46.7	52.6	36.8
1998	41.9	42.1	36.2	42.5	47.6	34.0	50.3	42.4	34.9	38.4	33.9	45.8	33.1	43.6	27.7	34.4	32.3	41.3	39.1	29.9	40.3	46.2	36.7	33.9	39.0	37.1	46.4	53.4	37.8
1999	42.4	42.6	36.4	43.0	47.6	34.8	50.9	43.2	34.6	39.6	34.4	46.8	33.0	43.6	28.0	32.6	32.1	41.5	39.2	28.9	41.6	45.8	37.2	34.8	39.4	34.7	46.8	54.0	38.1
2000	42.2	42.5	35.2	42.8	47.3	34.5	50.2	43.3	32.6	40.9	34.8	45.9	32.9	43.0	30.0	30.1	30.1	41.3	39.6	30.1	41.5	44.8	35.2	35.2	38.8	33.2	47.9	54.1	38.7
2001	41.4	41.7	35.1	41.9	47.4	34.6	49.3	41.4	31.7	39.1	34.3	45.6	31.0	42.8	30.9	29.0	28.7	41.5	40.0	32.6	39.4	46.5	34.7	34.9	39.1	32.9	45.8	52.1	38.5
2002	40.8	41.0	35.5	41.4	47.5	35.5	49.1	40.9	32.5	39.9	34.7	44.9	29.7	42.4	31.2	28.7	28.4	42.0	39.1	34.8	38.7	45.5	35.5	35.7	39.4	32.5	45.7	50.5	37.0
2003	40.9	41.1	35.2	41.5	47.2	36.1	48.7	41.0	33.0	39.0	34.8	45.0	30.4	43.0	32.9	29.0	28.2	41.9	39.1	34.5	38.5	44.8	34.4	36.3	39.7	31.4	44.8	51.2	37.0
2004	40.7	41.0	35.2	41.1	47.4	36.6	49.9	40.0	32.7	37.7	35.4	45.3	31.7	42.1	33.7	29.1	28.7	41.1	39.2	36.7	38.8	44.3	34.3	35.6	39.9	30.6	44.5	51.2	37.7

Table 2: Breakdown of tax revenue by country and main tax categories in 2004, 2003, 2000, and 1995 (% of GDP)

2004	EU25	EU15	NMS10	Euro-zone	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK
D2	13.8	13.8	14.0	13.7	13.6	12.0	17.7	12.0	13.0	14.1	12.2	15.7	13.2	14.7	17.2	12.1	11.3	14.7	16.3	15.9	13.0	14.8	13.9	14.6	16.5	12.7	14.3	17.1	13.6
D21	:	:	12.8	:	11.8	11.5	15.9	10.1	12.3	13.7	11.1	11.4	12.5	11.3	15.2	11.1	10.7	12.9	15.9	15.0	11.9	11.8	12.3	:	13.5	11.8	14.0	12.9	11.9
D212	6.9	6.9	7.9	6.7	7.0	7.4	9.8	6.2	8.2	8.3	6.1	7.2	7.4	6.0	9.1	7.1	6.5	6.5	9.0	7.7	7.3	7.8	7.5	8.1	8.9	8.0	8.7	9.1	7.0
D212	:	:	0.6	:	0.8	0.7	0.2	0.9	0.2	0.2	0.1	1.8	0.1	1.6	0.2	0.5	5.3	0.2	0.7	1.3	0.2	0.7	:	0.4	0.5	0.1	0.1	0.2	
D214	:	:	3.7	:	4.0	-	5.9	3.0	3.9	5.2	4.8	4.1	3.3	5.1	4.5	3.8	3.7	1.1	6.7	6.6	3.2	3.8	4.1	:	4.2	3.3	5.2	3.7	4.7
D29	:	:	1.2	:	1.8	0.5	1.8	1.9	0.7	0.4	1.1	4.2	0.7	3.4	1.9	1.0	0.6	1.8	0.4	0.8	1.1	3.0	1.7	:	2.9	0.8	0.3	4.2	1.7
D5	12.5	12.8	7.9	11.4	16.8	9.4	30.0	10.0	8.5	8.8	10.2	11.1	12.3	13.7	8.1	8.0	8.8	13.9	9.2	12.2	10.5	13.3	6.7	8.7	8.4	6.1	17.8	19.4	15.6
D51	:	:	7.5	:	16.1	9.3	28.1	9.7	8.5	8.3	9.9	10.2	12.0	13.3	7.3	7.8	8.7	13.2	8.8	11.5	9.4	12.7	6.1	:	8.1	5.8	17.1	19.0	13.4
D59	:	:	0.4	:	0.6	0.1	1.9	0.3	0.0	0.5	0.4	0.9	0.2	0.4	0.8	0.2	0.1	0.7	0.4	0.6	1.1	0.7	0.5	:	0.3	0.3	0.7	0.4	2.2
D91	:	0.4	:	0.4	0.8	0.0	0.2	0.2	0.0	0.2	0.4	0.5	0.1	0.7	0.7	:	0.0	0.2	0.1	0.2	0.3	0.1	0.0	0.0	0.1	0.0	0.3	0.1	0.2
D2_D5_D91	26.7	27.0	21.9	25.5	31.2	21.5	47.9	22.2	21.5	23.1	22.9	27.3	25.6	29.1	25.9	20.1	20.0	28.8	25.6	28.2	23.8	28.2	20.6	23.3	25.0	18.8	32.4	36.5	29.4
D611	13.1	13.1	13.4	14.6	14.1	15.1	1.2	16.8	11.1	12.2	12.2	16.3	4.6	12.7	7.7	8.8	8.4	11.3	13.5	6.9	14.0	14.5	14.0	11.3	14.7	12.3	12.1	13.9	7.7
D6111	:	:	7.3	:	8.4	10.5	0.1	7.2	10.8	5.6	8.6	11.1	2.7	8.8	5.3	6.4	7.6	5.0	9.6	3.1	4.3	6.7	5.3	:	5.6	8.0	9.0	10.8	4.2
D6112	:	:	4.7	:	4.5	3.7	1.1	6.5	0.3	4.9	1.9	4.1	1.7	2.4	2.1	2.4	0.8	5.0	3.3	3.1	7.0	6.0	6.4	:	7.7	2.9	2.2	2.9	3.2
D6113	:	:	1.4	:	1.2	1.0	-	3.2	-	1.7	1.7	1.1	0.2	1.5	0.3	0.1	0.1	1.3	0.6	0.7	2.7	1.8	2.3	:	1.4	1.4	0.8	0.3	0.3
D612	:	1.0	:	1.1	2.2	0.0	0.9	1.0	0.1	2.4	0.8	1.8	1.5	0.3	-	0.2	0.3	1.0	0.1	1.6	1.0	1.5	:	1.0	0.3	0.1	-	0.7	0.6
D995	0.1	0.1	0.2	0.1	-	-	0.1	-	-	0.0	0.5	0.1	-	0.0	-	-	0.1	-	-	-	0.0	-	0.4	-	0.0	0.7	-	-	0.0
D2_D5_D91_D611_D612_M_D995	40.7	41.0	35.2	41.1	47.4	36.6	49.9	40.0	32.7	37.7	35.4	45.3	31.7	42.1	33.7	29.1	28.7	41.1	39.2	36.7	38.8	44.3	34.3	35.6	39.9	30.6	44.5	51.2	37.7

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