



New
Direction



TAX REFORM 2030

Improving tax competitiveness by looking
at best practices across Europe



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INTRODUCTION

Since 2014, the Tax Foundation of the United States has produced what is known as the International Tax Competitiveness Index (ITCI). This index aims to measure the degree to which a country's tax system adheres to two aspects of tax policy: competitiveness and neutrality. According to the Tax Foundation, a tax code is competitive if it maintains low marginal taxes. A neutral tax system is one that seeks to raise as much revenue as possible while producing as few distortions as possible. This Index takes into account the tax competitiveness of 38 member countries of the Organisation for Economic Co-operation and Development (OECD).

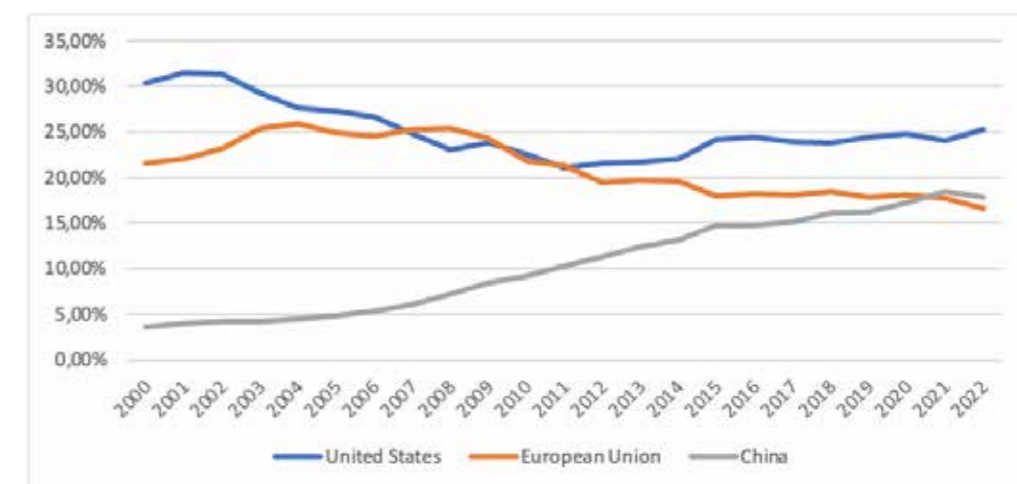
Tax competitiveness is not a minor issue. The structure of a country's tax system is a key determinant of its economic performance. Moreover, in today's globalized world, capital is highly mobile, so not having a competitive tax code can

scare away foreign and domestic business investment. The development of indicators such as the one mentioned above can provide transparency on the fiscal policies of governments and detect which regions show better performance.

While the International Tax Competitiveness Index evaluates the performance of OECD member countries, this report aims to provide greater detail on the tax competitiveness of European Union countries. The 27 Member States that make up the European Union account for about 16.5% of the global GDP and 5% of the global population. The study of tax competitiveness in the European Union is of vital importance in view of the deterioration of the contribution of its Member States to world GDP. In addition, the United States is able to contribute a higher output per capita.

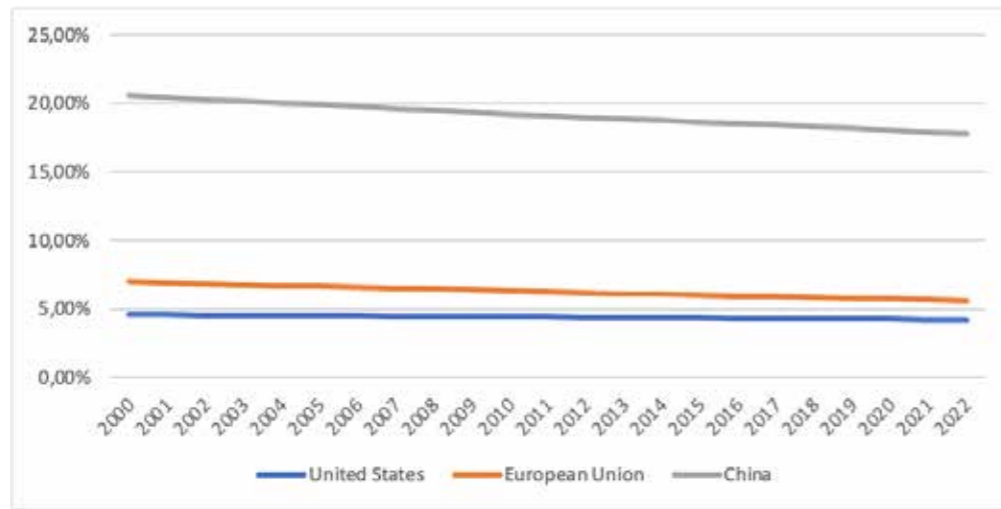
Figure 1.

Evolution of the contribution of the United States, the European Union and China to world GDP.



Source: World Bank.

Figure 2.
Evolution of the contribution of the United States, the European Union and China to the world population.

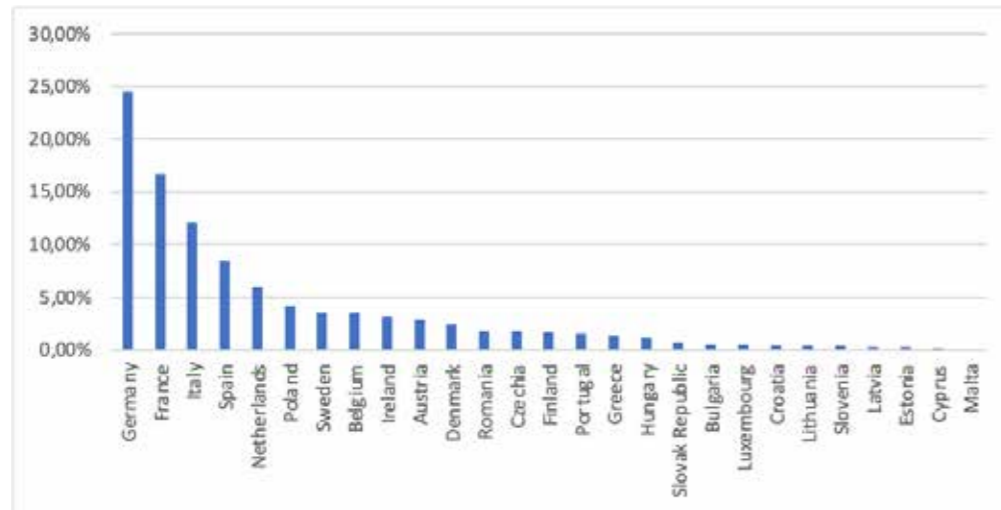


Source: World Bank.

By country, Germany, France, Italy and Spain are the leading economies within the European Union. Germany contributes 1 out of every 4 euros of GDP and about 1 out of every 5 inhabitants. France's share is similar in both indicators (15%).

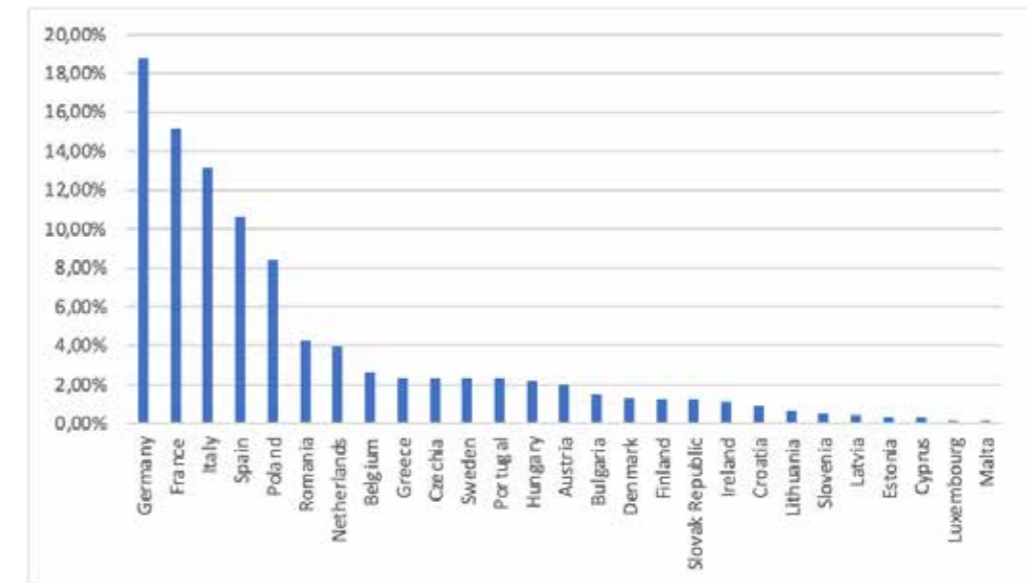
The contribution of the countries of Eastern and Central Europe is much more modest. Therefore, given its great relevance, it is necessary to pay special attention to the tax code of the big four of the EU economy.

Figure 3.
Contribution to European Union GDP of Member States, 2022.



Source: World Bank.

Figure 4.
Contribution to European Union population of Member States, 2022.



Source: World Bank.

The main objective of this report is to analyze tax competitiveness in European Union countries by creating the European Tax Competitiveness Index (ETCI) based on the methodology used by the Tax Foundation, which

allows for a country-by-country analysis of best practices. Ultimately, a series of reform proposals are outlined in order to highlight what a competitive tax system should look like in 2030.

A SUMMARY OF THE INTERNATIONAL COMPETITIVENESS INDEX 2023

The International Tax Competitiveness Index is a relative indicator of the competitiveness and neutrality of the tax codes of each of the 38 OECD countries. Therefore, it does not analyze all EU countries, leaving Bulgaria, Romania, Croatia,

Cyprus and Malta out of the calculations. The fact that it is relative implies that, although the best score is 100, it does not mean that it is the best possible score, but rather that it reflects the best tax code of the 38 OECD countries.

Table 1. Sample of countries analyzed in the ITCI.

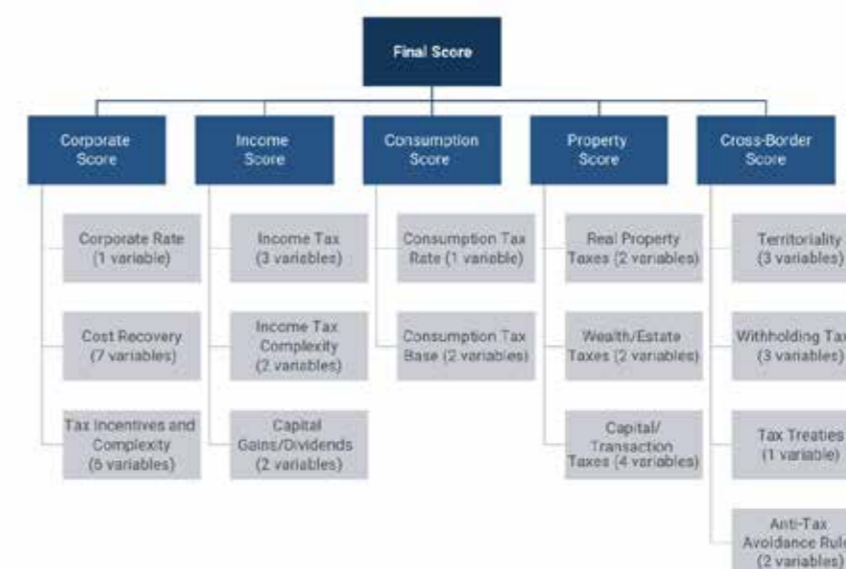
COUNTRY	EU MEMBER
Australia	No
Austria	Yes
Belgium	Yes
Canada	No
Chile	No
Colombia	No
Costa Rica	No
Czech Republic	Yes
Denmark	Yes
Estonia	Yes
Finland	Yes
France	Yes
Germany	Yes
Greece	Yes
Hungary	Yes
Iceland	No
Ireland	Yes
Israel	No
Italy	Yes
Japan	No
Latvia	Yes
Lithuania	Yes
Luxembourg	Yes
Mexico	No
Netherlands	Yes
New Zealand	No
Norway	No
Poland	Yes
Portugal	Yes
Slovakia	Yes
Slovenia	Yes
South Korea	No
Spain	Yes

Sweden	Yes
Switzerland	No
Turkey	No
United Kingdom	No
United States	No

The Index uses 41 variables across 5 broad categories: corporate income tax, individual income tax, consumption tax, property tax and cross-border tax rules. Each category has several subcategories, as shown in the figure below. ITCI used

data updated to July 2023 for the 2023 ranking, so its findings are mostly up-to-date but may fail to reflect certain changes announced at the end of the year, with the approval fo 2024 budget proposals.

Figure 5. Components of ITCI.



Source: Tax Foundation.

Discussion of variables.

The purpose of this section is to describe the variables used for each of the index categories. This allows us to have a much broader understanding of what the International Fiscal Competitiveness Index measures, as well as to reflect its robustness by using reliable data sources that allow for international comparison.

Corporate Income Tax

The corporate income tax is a direct tax levied on the profits earned by companies. According to the ITCI itself, the tax reduces the rate of return on investments, i.e., it increases the cost of capital, which negatively affects both production and investments made. Workers and consumers can also be negatively affected, leading to lower wages and higher prices. This category is divided into 3 subcategories:

- **Corporate Rate:** includes the marginal tax rate payable on each additional dollar of profit.

- **Cost recovery:** This tax not only has effects through its tax rates, but also through how the tax base is defined. This is of vital importance, as failure to correctly account for the costs of doing business inflates companies' tax bills. This increases the cost of capital for companies. This subcategory includes seven variables:
 - Carryforwards: It takes into account the number of years and the quantitative limit for which companies can deduct present losses from future profits.
 - Carrybacks: It takes into account the number of years and the quantitative limit for which companies can apply present losses from past profits. Thus, they will obtain tax refunds.
 - Capital cost recovery of machines, buildings and intangibles: the percentage of the present value cost of machinery, buildings and intangible assets that corporations can write off over the depreciable life of each of the different types of assets.

- **Inventories:** takes into account the inventory depreciation method when defining the cost of sales. The index gives a higher value to the Last In, First Out (LIFO) method.
- **Allowance for corporate equity:** considers whether the tax system enables allowances for corporate equity. That is, deductions are allowed for equity that serves to finance the operations of the companies and thus mitigates the debt bias (interest deductions are enabled, but not the use of equity).
- **Tax incentives and complexity:** This category takes into account 6 variables, and its goal is to measure the neutrality of the tax code. In other words, it neither encourages nor discourages the performance of certain economic activities. For example, the Spanish tax system enables deductions for film productions or those related to investment in innovation and development. This may lead to overinvestment in these types of activities.
- **Patent box:** takes into account whether the country applies a more beneficial tax rate to income from intellectual property (software copyright and patent). Creating a patent box is assessed negatively by the ITCI report.
- **Research and development:** Unlike the previous one, incentives for research and development activities are on an expenditure basis. The cost of business investment is compensated. However, they are not neutral, since very specific activities are defined, and these incentives are often complex in their implementation.
- **Digital services taxes:** In recent years, some countries, such as Spain (known as the Google Tax), have implemented taxes on revenues generated by digital services. They are levied on revenues and not on profits, so they do not consider profitability. Moreover, they are limiting certain economic activities. Therefore, these taxes are highly distorted.
- **Complexity:** considers both the number of taxes and fees levied on corporate income, the existence of additional surcharges, and the amount of revenue that countries collect from taxes on corporate profits other than profit taxes.
- **Top statutory personal income tax rate:** it measures the marginal income tax rate, since this tax rate may discourage paper (by making it more expensive). In other words, leisure is incentivized.
- **Income level at which top statutory personal income tax rate applies:** countries that apply marginal rates at lower income levels score better on the index, as this makes the tax a flat one.
- **The economic cost of labor taxation:** takes into account the ratio of the marginal tax wedge to the average tax wedge. A higher ratio means that someone who earns more income, the tax system will bear a greater influence on their decisions in the form of economic losses. A ratio of 1, for example, implies that an individual can work more hours without the tax burden growing relatively.
- **Complexity:** complexity is measured in two ways, on the one hand through the type of any surcharge on income tax and the amount of income obtained through social contributions.
- **Capital gains and dividends:** In addition to income tax, many countries levy taxes on personal income from capital gains and dividends. This results in double taxation of corporate profits, adding to the tax burden on capital. As a result, countries with these lower taxes score better.

Consumption Taxes

These are taxes levied on the consumption of goods and services. Normally a value added tax (VAT) is levied. Some countries are highly inefficient in its application, e.g. by introducing reduced rates and exemptions, which requires greater complexity in fulfilling tax obligations. This category is divided into three subcategories:

- **Consumption tax rate:** Countries with lower consumption tax rates score better, as they discourage less consumption and investment.
- **Consumption tax base:** Ideally, the tax should be levied in a standard manner on all consumption. That is, the collection should be equivalent to multiplying the amount of final consumption in the economy by the tax rate. On the other hand, the more allowances and exemptions are applied, the greater the difference between the two amounts and the more complex the tax becomes. Two variables are considered:
 - **VAT/Sales tax exemption threshold:** Countries that apply a minimum income threshold whereby companies do not have to participate in the VAT system score worse. Although these businesses do not have to collect the tax, they also cannot receive a refund for business inputs. Unnecessarily large thresholds create

distortions by favoring smaller businesses over larger ones.

- **Consumption tax base as a percentage of total consumption:** This variable measures the difference between actual revenues collected and potential revenues collected under a system in which exemptions and reduced rates are not applied. Thus, the countries with the best scores are those in which applying the tax rate to their level of consumption yields a similar figure to the tax collection.
- **Complexity:** measures the average time in hours that companies need to comply with a country's excise tax requirements.

Property Taxes

Property taxes are levied on the assets of individuals and businesses. There are several types: wealth tax, inheritance tax and gift tax, for example. These taxes are highly distortionary and generate complexity and costs for taxpayers. For example, inheritance and gift taxes can discourage paper and savings, or taxes on financial appraisals increase the cost of capital. There are 3 areas in this category:

- **Real property taxes:** they are recurring taxes levied on taxable property. They are usually taxes managed by local governments. Two variables are included:
 - **Structure of property taxes:** although they are generally efficient taxes, they can become capital taxes when they are levied on more than the land itself, such as buildings or structures built on the land. The index scores worse for countries that tax in this way.
 - **Real property tax collections:** measures the ratio of tax revenues from this tax to the stock of private capital. Countries with higher tax burdens score worse in the index.
- **Wealth and estate taxes:** countries apply taxes on individual wealth. These taxes are usually those levied on inheritances and gifts based on the assets transferred to the heirs. The following variables are included:
 - **Wealth taxes:** Property taxes are levied annually. The countries that apply it (only one in the European Union, Spain), receive the worst possible score. Italy and France apply it to certain assets (they receive an intermediate score).
 - **Estate, inheritance and gift taxes:** Countries with these taxes score the worst, while countries that do not apply them score the best.
- **Capital, Wealth and property taxes on businesses:** they are taxes which levy on the assets and fixed capital

of businesses. They include taxes on the transfer of real property, net assets of businesses, raising capital and financial transactions. These taxes increase the cost of capital for companies.

- **Property transfer taxes:** they are taxes that record the transfer of capital from one person or company to another. Countries receive a lower score if they tax this type of activity.
- **Corporate asset taxes:** are similar to wealth taxes, but are levied on corporate wealth and assets. This variable is also dichotomous: countries that apply this tax obtain the worst possible score.
- **Capital duties:** are taxes levied on the issuance of shares. Countries that apply the tax have the worst possible score, while those where it does not exist have the best score.
- **Financial transaction taxes:** Financial transaction taxes are levied on the sale or transfer of financial assets. These taxes add an additional layer to the purchase and sale of stocks, which hinders the flow of capital. Countries with financial transaction taxes perform worse in the index.

Cross-Border Tax Rules

In a global economy, it is common for companies to do business outside the borders of the countries in which their headquarters are located. From selling to consumers in other countries to building global supply chains around the world. Nations often define tax rules to deal with business foreign income. Cross-border tax rules shape the system applied by countries to these business activities. Four categories are included:

- **Territoriality:** In territorial tax systems, multinational corporations pay taxes in the countries where they earn their income. By contrast, worldwide tax systems require companies to pay for profits earned around the world. Many countries, such as the United States, opt for a hybrid system. Normally, countries operating under a territorial tax system apply partial or full exemptions for dividends or capital gains earned abroad. These deductions eliminate double taxation (domestic and foreign). In contrast, companies located in global tax systems are at a disadvantage, as they face jurisdictional double taxation. Territoriality is measured through three variables:
 - **Dividends received exemption:** this variable score countries according to the level of dividend exemption they provide. For example, countries with hybrid or global systems receive the worst possible score by not enabling dividend exemption.
 - **Branch or subsidiary capital gains exclusion:** as in the previous case, the percentage of capital gains from

foreign investments exempt from domestic taxes is measured.

- **Restrictions on eligible countries:** In some cases, countries impose restrictions in their territorial systems that affect the extent of exemptions on dividends and capital gains received from foreign subsidiaries. It applies especially to income from certain countries, which are on a “blacklist” as they do not follow a number of requirements. Countries with such restrictions receive the worst possible score.
- **Withholding Taxes:** When companies pay dividends, interest and royalties to foreign investors or companies, these companies must normally withhold an amount from these payments in the form of taxes. Obviously, this reduces the return on investment, while companies face an increased cost of capital, as they must pay higher dividends or royalties to offset the tax payment. This sub-category takes into account 3 variables that consider withholding tax rates on dividends, interest and royalties. Countries with higher withholding rates bear a worse performance in the index.
- **Tax treaty network:** countries often sign tax treaties with other countries to align interests and reduce double taxation. Countries with a larger number of partners in this tax treaty network offer a much more attractive tax regime. Therefore, it is these countries that score better in the index.
- **Anti-avoidance rules:** The anti-avoidance rules seek to discourage the use of tax planning systems that help companies reduce their tax liability. These types of rules can end up causing countries to have uncompetitive tax extractors, as they add much more complexity. Two variables are included:
 - **Controlled Foreign Corporation Rules:** Their goal is to prevent companies from shifting their pre-tax profits from a high-tax country to a low-tax country. The scoring of this variable is based on four aspects: 1) whether these rules exist; 2) whether they apply to all income or only to passive income; 3) whether there are exemptions from the general rules; and 4) whether the rules have a strict minimum tax component. Countries without such rules score the best.
 - **Interest deduction limitations:** High-tax countries create incentives for companies to finance investments with debt and use interest deductions to reduce their tax liabilities. To prevent companies from borrowing money internally from entities in low-tax jurisdictions (where equity investments predominate) to other high-tax jurisdictions for tax purposes, most countries limit the amount that companies can deduct in interest. In this case, the index assesses the type of deduction limitation system. Countries that limit interest deductions with only transfer pricing regulations receive the best score. Countries with debt-to-equity ratios receive an average score, and countries with interest-tax income limits receive the worst score.

The strength of ITCI

As mentioned in the previous section, the ITCI measures a wide range of concepts related to the tax code of developed countries. In addition, the process of compiling the index is also outstanding, which adds validity and robustness to the scores given for each country. This forms a good benchmark for understanding tax competitiveness in the world's major economies.

The indicators obtained by the Tax Foundation are from reliable sources. Typically, data from the OECD, Bloomberg, European Commission papers, or reputable consulting firms are used. This enables easy access to the underlying index data. In addition, it is up-to-date information.

Final scores are also obtained through a public and transparent methodology, as described above. One of the advantages of using a relative scoring method is that it avoids making value judgments about what the ideal tax system is (determining what the optimal income or consumption tax rate should be, for example).

Another point to bear in mind is that the index enables easy comparison between countries. In addition, by taking the best

performing country as a benchmark, policies that can enable a country to implement a competitive tax system can be easily identified.

In addition, the report is constantly updated. Ten editions have already been published, and although they are not purely comparable with each other due to the methodological changes introduced throughout this decade, they do enable us to observe the changes and trends in the tax systems of OECD countries. This enables a simple follow-up of fiscal policies. It is an indicator that enriches economic analysis and public policy evaluation.

It is precisely these strengths that explain the need to deepen the initial analysis conducted by the Tax Foundation. In this report, the aim is to evaluate the performance of European countries in more detail. This helps to identify successful policies and identify areas for improvement in the tax systems of the Member States (section 5). With this report, it is intended to introduce into the public conversation the need to improve tax competitiveness in the European Union and to promote policies that will help improve its tax model.

Scores and overall ranking in 2023

Although this paper focuses on studying the tax competitiveness of EU member countries, to conclude this section, an overview of the ITCI and the performance of EU countries is provided. Two issues are worth considering: As it includes non-EU OECD countries, and as it is a relative

index, the performance of these countries affects the score of European countries. For this reason, the following sections propose a European Union Tax Competitiveness Index that only takes into account the Member States exclusively.

Table 2.
2023 International Tax Competitiveness Index Rankings.

Country	Overall rank	Overall score	Corporate tax rank	Individual taxes rank	Consumption taxes rank	Property taxes rank	Cross-border tax rules rank
Estonia	1	100.0	2	1	15	1	11
Latvia	2	88.5	1	3	27	5	9
New Zealand	3	86.1	29	5	1	8	19
Switzerland	4	84.7	10	9	3	36	1
Czech Republic	5	81.2	6	4	25	6	10
Luxembourg	6	78.9	23	21	7	14	5
Turkey	7	78.6	11	7	13	22	7
Israel	8	78.3	13	23	11	11	8
Lithuania	9	76.6	3	10	30	7	22
Australia	10	75.9	32	14	9	4	21
Hungary	11	75.0	4	6	38	23	3
Slovak Republic	12	74.3	18	2	29	3	30
Sweden	13	73.3	8	20	21	10	13
Netherlands	14	70.6	25	19	16	21	4
Canada	15	69.8	24	24	8	25	15
Slovenia	16	66.6	7	13	31	24	18
Norway	17	66.6	14	27	23	15	12
Germany	18	66.6	31	35	14	12	6
Finland	19	66.5	9	25	24	19	20
Austria	20	65.3	20	30	17	16	16
United States	21	65.0	22	22	4	29	35
Costa Rica	22	64.8	36	33	5	9	31
Korea	23	61.6	26	37	2	32	26
Japan	24	61.5	30	34	6	26	25
Greece	25	61.4	19	8	33	28	23
Mexico	26	60.1	27	28	12	2	38
Belgium	27	60.0	15	11	22	30	33
Ireland	28	58.9	5	31	34	17	34
Denmark	29	58.5	17	36	20	18	29
United Kingdom	30	56.1	28	26	35	35	2
Spain	31	55.8	33	17	19	37	17
Iceland	32	55.5	12	18	28	34	32
Poland	33	55.3	16	12	36	31	27
Portugal	34	52.1	37	29	26	20	28
Chile	35	50.5	35	38	10	13	37
France	36	49.1	34	32	32	33	14
Italy	37	48.4	21	16	37	38	24
Colombia	38	46.4	38	15	18	27	36

Table 2 shows the ranking of OECD countries in the ITCI and their overall score. Estonia tops the list, for the tenth consecutive year. Many elements of its tax system stand out, especially its corporate income tax that only applies to distributed profits, plus a 20% flat tax on individual income that does not apply to dividend income. It is also worth mentioning the property tax, as it only applies to the value of land, and its territorial system that exempts profits earned abroad by domestic companies from taxation.

In addition to Estonia, the top five also features two other European countries: Latvia and the Czech Republic. Latvia stands out, for example, for having adopted Estonia's corporate taxation system and for the efficiency of its labor taxes. The Czech Republic also has a low and not very complex corporate income tax. In addition, its labor taxes are minimally distortionary.

On the other hand, Italy, France and Portugal stand out negatively, ranking among the bottom performers. In the case of Italy, for example, it has multiple and highly distorted property taxes. In addition, the consumption tax is high, which

is applied to a very narrow tax base. Portugal levies a high rate on corporate profits, as well as adding surcharges. In addition, the consumption tax is as high as 23% and only applies to half of the potential tax base. France, on the other hand, has a very high tax burden on labor, in addition to a reduced rate on income from intellectual property rights.

Another way to view the data is dynamically. That is, to check the changes that have occurred in the last year. With respect to the ranking, Belgium has fallen 5 places, while Slovenia has risen 3. Both are the most prominent cases among the countries of the European Union. In terms of score, again, Belgium is the EU country that loses the most points (5.6), while Italy and France regain only one point.

In the case of Belgium, the deduction of present losses to future profits was limited from 70% to 40% of the taxable income of taxable income exceeding one million euros. In addition, cross-border tax rules were tightened. France, on the other hand, has progressively reduced its tax on corporate profits, which explains its slight improvement.

Norway	16	68.5	17	66.6	-1	-1.9
Poland	33	55.3	33	55.3	0	0.0
Portugal	35	51.3	34	52.1	1	0.8
Slovak Republic	12	73.9	12	74.3	0	0.4
Slovenia	19	66.7	16	66.6	3	-0.1
Spain	32	56.5	31	55.8	1	-0.7
Sweden	13	73.7	13	73.3	0	-0.4
Switzerland	4	85.3	4	84.7	0	-0.6
Turkey	10	75.7	7	78.6	3	2.9
United Kingdom	27	61.7	30	56.1	-3	-5.6
United States	21	66.0	21	65.0	0	-1.0

Table 3.

Changes in the ITCI between 2023 and 2022.

Country	2022 Rank	2022 Score	2023 Rank	2023 Score	Change in rank from 2022 to 2023	Change in score from 2022 to 2023
Australia	6	78.6	10	75.9	-4	-2.7
Austria	17	67.4	20	65.3	-3	-2.1
Belgium	22	64.4	27	60.0	-5	-4.4
Canada	15	70.0	15	69.8	0	-0.2
Chile	31	57.6	35	50.5	-4	-7.1
Colombia	38	47.3	38	46.4	0	-0.9
Costa Rica	23	63.5	22	64.8	1	1.3
Czech Republic	5	81.8	5	81.2	0	-0.6
Denmark	29	58.5	29	58.5	0	0.0
Estonia	1	100.0	1	100.0	0	0.0
Finland	18	67.1	19	66.5	-1	-0.6
France	36	48.1	36	49.1	0	1.0
Germany	20	66.4	18	66.6	2	0.2
Greece	25	62.9	25	61.4	0	-1.5
Hungary	11	75.5	11	75.0	0	-0.5
Iceland	34	55.1	32	55.5	2	0.4
Ireland	30	58.2	28	58.9	2	0.7
Israel	8	78.0	8	78.3	0	0.3
Italy	37	47.4	37	48.4	0	1.0
Japan	26	62.8	24	61.5	2	-1.3
Korea	24	63.3	23	61.6	1	-1.7
Latvia	2	89.7	2	88.5	0	-1.2
Lithuania	9	76.7	9	76.6	0	-0.1
Luxembourg	7	78.2	6	78.9	1	0.7
Mexico	28	60.9	26	60.1	2	-0.8
Netherlands	14	71.0	14	70.6	0	-0.4
New Zealand	3	87.8	3	86.1	0	-1.7

THE TAX COMPETITIVENESS OF THE EU COUNTRIES

As can be seen, there are hardly any significant changes between the ITCI and the EUTCI. For example, Estonia is the leading country in both cases. The most striking case is that of Denmark, which drops 5 places and 13.7 points in the index highlighted for the countries of the European Union. This difference is mainly explained by its performance in the personal income tax category. It should be remembered that the indicator is constructed on the basis of the difference with respect to the average in each variable. In this case Denmark scores poorly in this category if all OECD countries are included (50.2 points). However, there are countries such as Chile, Costa Rica, Japan

and Korea that also have low scores, which reduces the average. When only EU countries are considered, the average is raised, which is why Denmark's score in this category is now 30.4 points. Similarly, Germany increases by 8.4 points and rises by 5 places. In the consumption category, Germany moves from 14th place and a score of 65.1 in the ITCI to a score of 75.1 and second place in the EUTCI. In this case, the opposite is true, with non-EU countries performing well, such as New Zealand, Korea and Switzerland. By eliminating us from the sample, the average drops and the situation of the best performing Member States is favored by increasing their advantage over the average.

Table 4.
Difference between ITCI and EUTCI in 2023.

Country	ITCI rank	ITCI score	EUTCI rank	EUTCI score	Difference in rank	Difference in the score
Estonia	1	100.0	1	100.0	0	0.0
Latvia	2	88.5	2	87.9	0	-0.6
Czech Republic	3	81.2	4	82.1	-1	0.9
Luxembourg	4	78.9	3	87.3	1	8.4
Lithuania	5	76.6	5	75.0	0	-1.6
Hungary	6	75.0	8	69.8	-2	-5.2
Slovak Republic	7	74.3	7	73.6	0	-0.7
Sweden	8	73.3	11	68.9	-3	-4.4
Netherlands	9	70.6	10	69.3	-1	-1.3
Slovenia	10	66.6	12	65.3	-2	-1.3
Germany	11	66.6	6	75.0	5	8.4
Finland	12	66.5	14	62.3	-2	-4.2
Austria	13	65.3	9	69.7	4	4.4
Greece	14	61.4	17	52.8	-3	-8.6
Belgium	15	60.0	13	62.9	2	2.9
Ireland	16	58.9	16	53.2	0	-5.7
Denmark	17	58.5	22	44.8	-5	-13.7
Spain	18	55.8	15	54.2	3	-1.6
Poland	19	55.3	18	51.0	1	-4.3
Portugal	20	52.1	20	48.8	0	-3.3
France	21	49.1	19	49.6	2	0.5
Italy	22	48.4	21	45.2	1	-3.2

Table 5 shows the overall score and ranking and the ranking for each category for the EU countries in the EUTCI. As indicated above, Estonia tops the table in 2023, followed by Latvia and Luxembourg. While Latvia and Estonia stand out in terms of corporate, individual and land taxes, Luxembourg leads

in the area of consumption. On the opposite side of the table, Denmark, as discussed above, performs poorly in the area of personal income taxes, due to its high rates on income and on dividends and capital gains. Italy, on the other hand, stands out negatively in terms of its land taxes, which are multiple and

highly distorted. Portugal has its weakness in corporate taxes, due to its high tax rate of 31.5 to which several surtaxes are added.

In general, the countries at the top of the table perform well in all categories, while the countries at the bottom score poorly in all categories. Mid-table countries often combine areas in which they excel with areas in which they perform worse.

Table 5.
2023 European Union Tax Competitiveness Index Rankings.

Country	Overall rank	Overall score	Corporate tax rank	Individual taxes rank	Consumption taxes rank	Property taxes rank	Cross-border tax rules rank
Estonia	1	100.0	2	2	3	1	13
Latvia	2	87.9	1	5	10	3	9
Luxembourg	3	87.3	16	10	1	8	3
Czech Republic	4	82.1	6	4	7	4	7
Lithuania	5	75.0	3	7	11	5	17
Germany	6	75.0	19	12	2	7	4
Slovak Republic	7	73.6	12	1	9	2	22
Hungary	8	69.8	4	3	22	14	2
Austria	9	69.7	15	18	4	9	5
Netherlands	10	69.3	18	16	5	15	1
Sweden	11	68.9	7	15	17	6	8
Slovenia	12	65.3	8	9	15	16	10
Belgium	13	62.9	10	11	8	17	12
Finland	14	62.3	9	17	14	11	14
Spain	15	54.2	21	13	6	21	11
Ireland	16	53.2	5	21	18	10	21
Greece	17	52.8	14	6	21	18	16
Poland	18	51.0	11	8	19	19	20
France	19	49.6	20	20	12	20	6
Portugal	20	48.8	22	19	13	12	18
Italy	21	45.2	17	14	20	22	15
Denmark	22	44.8	13	22	16	13	19

As for the most notable changes in the last year, we can mention the cases of Denmark and Hungary. In the case of Denmark, the Nordic country falls 5 places with respect to 2022, and now ranks at the bottom of the EUTCI, losing 6.5 points. The sharpest drop occurs in the category of personal income taxes (down 9.2 points), especially in the subcategories of tax rates applied and tax complexity. For example, it has increased its income tax rate to 55.9 percent from 47.9, an increase of

12 points. In addition, there is also a significant increase in the level of income to which the marginal tax rate is applied, discouraging work. Hungary's change is positive and its improvement is mostly tied to income taxes, where complexity has been reduced, although the change is limited and is driven by a relative rather than an absolute rise in its competitiveness. It should be recalled that Hungary stands out positively in this area thanks to a flat tax of 15%.

Table 6.
Changes in the EUTCI between 2023 and 2022.

Country	2022 Rank	2022 Score	2023 Rank	2023 Score	Change in rank from 2022 to 2023	Change in score from 2022 to 2023
Austria	10	69.3	9	69.7	1	0.4
Belgium	12	63.1	13	62.9	-1	-0.2
Czech Republic	4	81.3	4	82.1	0	0.8
Denmark	17	51.4	22	44.8	-5	-6.5
Estonia	1	100.0	1	100.0	0	0.0
Finland	13	62.8	14	62.3	-1	-0.5
France	21	45.0	19	49.6	2	4.6
Germany	6	73.1	6	75.0	0	1.9

Greece	18	51.2	17	52.8	1	1.6
Hungary	11	65.8	8	69.8	3	4.1
Ireland	19	49.8	16	53.2	3	3.4
Italy	22	44.5	21	45.2	1	0.7
Latvia	2	87.8	2	87.9	0	0.1
Lithuania	5	74.4	5	75.0	0	0.7
Luxembourg	3	86.0	3	87.3	0	1.4
Netherlands	9	69.9	10	69.3	-1	-0.6
Poland	15	53.7	18	51.0	-3	-2.6
Portugal	20	47.0	20	48.8	0	1.7
Slovak Republic	7	72.9	7	73.6	0	0.7
Slovenia	14	61.4	12	65.3	2	3.8
Spain	16	52.7	15	54.2	1	1.4
Sweden	8	71.6	11	68.9	-3	-2.7

In order to gain a more comprehensive understanding of the tax competitiveness of Member States, an in-depth analysis is presented in the subsequent subsections. The results for each category, which include corporate tax, individual taxes, property taxes, consumptions taxes and cross-border tax rules, are meticulously detailed below. Furthermore, this examination delves into the various factors contributing to the countries' ranking. Furthermore, this examination delves into the various factors contributing to the countries' rankings. These factors encompass a range of elements such as tax competitiveness frameworks. By evaluating these components, we can discern the reasons behind each country's ability to achieve a higher or lower score in terms of tax competitiveness. This analysis not only highlights the current standings but also sets the stage for a detailed discussion on potential areas for policy reforms and improvements, which will be thoroughly explored in Section 4, focusing on best practices. The ultimate goal is to provide a clear picture of how each Member State's tax system compares on an European scale and to identify actionable strategies that can be adopted for enhanced fiscal efficiency and economic growth.

Corporate income tax

The corporate tax category highlights that it is not only important to have a low tax rate, but also to make a simple, uncomplicated tax in which the tax base is properly defined, with appropriate rules for the amortization of intangible assets and business machinery. This is the case in Latvia and Estonia. Although they bear a low tax rate of 20%, it is not

the lowest in the European Union. For example, Ireland has a rate of 12.5% and Hungary 9%. The key is that, for example, in these countries there are no limits on carrying forward losses or bringing past profits into the present to obtain tax refunds. However, for example Estonia has a slightly more complex tax by issuing a reduced rate on distributed profits that are less than or equal to the average profit distribution of the last three years (14 percent instead of the general rate of 20 percent). The case of Latvia will be explained in the following section as one of the success stories.

Portugal and Spain, on the other hand, stand out as the countries with the worst scores. Portugal is ranked last due to its tax rate and the incentives it applies, which add a layer of complexity to the tax on corporate profits. As mentioned above, Portugal's tax rate is 31.5%. Spain's, on the other hand, is slightly above the average of the countries in the sample analyzed (25% versus 21.8%). In addition, in the case of Portugal there is a patent box, surcharges to the tax in certain cases and different rates and taxes that are added to the corporate income tax. The same is true in Spain, with different reduced rates applied in certain cases, for example to newly created companies (15% compared to the general rate of 25%). In addition, a tax on digital services has recently been created. It is also worth mentioning the limits applied to the offsetting of losses against the results of other fiscal years. In Spain, it is only possible to partially recover present losses with profits from previous years but limited to 25% of the taxable base exceeding €60 million. In addition, there are also limits on the depreciation of machinery, intangible assets and buildings.

Table 7.
Corporate taxes.

Country	Overall rank	Overall score	Rate rank	Rate score	Cost recovery rank	Cost recovery score	Incentives rank	Incentives score
Latvia	1	100.0	7	60.5	1	100.0	1	100.0
Estonia	2	98.1	7	60.5	1	100.0	4	94.3
Lithuania	3	83.9	3	78.4	4	64.8	16	64.1
Hungary	4	80.8	1	100.0	21	27.1	17	63.7
Ireland	5	77.9	2	87.4	19	31.6	12	71.5

Czech Republic	6	74.5	4	64.1	15	40.5	5	91.2
Sweden	7	73.9	10	58.3	11	44.1	3	94.8
Slovenia	8	73.8	4	64.1	16	39.0	6	90.6
Finland	9	73.0	7	60.5	18	34.6	1	100.0
Belgium	10	64.1	16	42.5	5	58.5	10	75.6
Poland	11	63.5	4	64.1	13	42.6	19	55.7
Slovak Republic	12	62.9	11	56.9	14	41.1	14	68.2
Denmark	13	61.4	12	53.3	17	36.0	9	76.2
Greece	14	60.6	12	53.3	22	27.0	7	84.9
Austria	15	59.3	14	46.1	7	49.8	15	65.5
Luxembourg	16	57.2	15	42.7	10	46.3	13	69.6
Italy	17	55.4	20	32.4	3	67.2	18	56.4
Netherlands	18	55.2	18	39.6	12	43.7	11	72.3
Germany	19	50.1	21	25.1	8	47.8	8	77.0
France	20	44.6	19	39.5	9	46.8	21	37.0
Spain	21	44.1	16	42.5	20	29.7	20	51.3
Portugal	22	33.5	22	19.1	6	52.0	22	33.1

Individual taxes

In terms of individual income taxes, Slovakia and Estonia lead the ranking. The case of Slovakia is striking, because they bear a strong performance in all categories. For example, it does not tax capital gains, while dividends are taxed at 7%, well below the rate applied in other countries (20.4% of the average of the countries analyzed in the sample). In terms of complexity, as in other countries, no surcharges are applied, which is why it obtains the highest score. The marginal tax rate is 29% (only Estonia has a lower tax rate of 21.60%). If it opted to apply a flat tax, as is the case in Hungary, Slovakia would lead the ranking in

all three categories of this tax. In Estonia, in addition to its tax rate, it also scores well because the multiple of average income to which the highest tax bracket applies is low (0.7), as well as not taxing dividends (although capital gains are taxed at 20%).

Denmark and Ireland are the last qualifiers. In the case of Denmark, this is due to its high marginal tax rate (55.9%), which applies to a very high average income multiple (9.8), in addition to applying a very high rate to capital gains and dividends (42% in both cases). Ireland, on the other hand, also stands out negatively in terms of tax rate (52%) and taxation of capital gains and dividends (33% and 52%, respectively), while it ranks first in terms of tax complexity,

Table 8.
Income taxes.

Country	Overall rank	Overall score	Capital gains/dividends rank	Capital gains/dividends score	Income tax rank	Income tax score	Complexity rank	Complexity score
Slovak Republic	1	100.0	1	100.0	4	82.9	1	100.0
Estonia	2	98.0	2	87.9	2	91.9	1	100.0
Hungary	3	96.6	8	77.8	1	100.0	1	100.0
Czech Republic	4	96.0	6	84.1	3	90.5	1	100.0
Latvia	5	94.7	2	87.9	5	81.7	1	100.0
Greece	6	86.1	4	87.7	10	55.7	1	100.0
Lithuania	7	85.7	10	73.0	6	72.8	1	100.0
Poland	8	81.3	11	70.0	8	63.0	1	100.0
Slovenia	9	80.2	7	79.7	16	47.7	1	100.0
Luxembourg	10	79.6	5	86.1	17	47.0	20	91.2
Belgium	11	79.4	9	77.2	15	48.5	1	100.0
Germany	12	74.6	13	55.6	7	69.6	20	91.2
Spain	13	74.1	14	54.4	9	60.6	1	100.0
Italy	14	72.7	12	56.4	12	53.7	1	100.0
Sweden	15	70.0	18	48.6	11	55.3	1	100.0
Netherlands	16	68.4	17	49.7	14	49.0	1	100.0
Finland	17	66.9	19	45.8	13	49.2	1	100.0
Austria	18	65.0	15	53.4	21	34.1	1	100.0

Portugal	19	63.6	16	52.5	22	30.9	1	100.0
France	20	60.0	20	40.8	20	34.5	1	100.0
Ireland	21	56.4	22	24.9	18	43.4	1	100.0
Denmark	22	30.4	21	25.2	19	36.0	22	30.0

Consumption taxes

Luxembourg and Germany are the leaders in the excise tax category. In both cases the tax rate is low, at 17% and 19%, respectively, which means that consumption is not excessively badly treated from a tax point of view in these countries. Although it is true that in both Member States there is a tax exemption limit, although it is low (\$41,176 in Luxembourg and \$29,543 in Germany), so most companies have to collect VAT. Finally, in the case of Luxembourg the tax base is applied on 86% of the sales made, while in Germany the percentage is somewhat lower (59.40%),

although above the average of the European Union countries (57.6%).

Hungary and Greece are at the bottom of the ranking in the category of consumption taxes. In the case of Hungary, as mentioned above, its tax rate is high at 27%, well above the average (21.8%). It also has a high exempt limit (\$77,419), although in this subcategory its performance is in the average of the sample of countries. For its part, Greece has a tax rate of 24%, also high. The Greek country has a very low base, 36%, which places it as the worst country in this respect, although its exemption limit is low (\$18,330).

Table 9.

Consumption taxes.

Country	Overall rank	Overall score	Rate rank	Rate score	Base rank	Base score
Luxembourg	1	100.00	1	100.00	1	100.00
Germany	2	75.08	2	83.71	7	70.31
Estonia	3	73.65	3	75.57	4	78.77
Austria	4	66.94	3	75.57	8	64.58
Netherlands	5	64.86	7	67.43	6	71.66
Spain	6	61.35	7	67.43	10	64.25
Czech Republic	7	57.37	7	67.43	12	55.84
Belgium	8	57.36	7	67.43	13	55.80
Slovak Republic	9	55.86	3	75.57	18	41.16
Latvia	10	55.19	7	67.43	14	51.22
Lithuania	11	53.35	7	67.43	16	47.34
France	12	51.62	3	75.57	21	32.20
Portugal	13	50.54	15	51.14	9	64.37
Finland	14	49.54	18	43.00	5	73.74
Slovenia	15	48.92	13	59.29	15	49.46
Denmark	16	48.81	20	34.86	2	83.68
Sweden	17	47.51	20	34.86	3	80.93
Ireland	18	38.82	15	51.14	19	39.59
Poland	19	38.44	15	51.14	20	38.79
Italy	20	37.92	13	59.29	22	26.20
Greece	21	35.72	18	43.00	17	44.52
Hungary	22	24.79	22	18.57	11	55.87

Property taxes

In terms of taxes levied on land, Estonia shines in this area. The reason is that it has only one tax. Moreover, this tax is levied on land, which makes it even more attractive. It is also worth mentioning that taxes on land as a percentage of the capital stock barely amount to 0.1%. Slovakia is also noteworthy in this category. Although, unlike Estonia, it taxes real property, not

land, it also has tax deductions, making it even more complex. In both cases there are no estate, inheritance or gift taxes.

Italy and Spain are characterized by just the opposite, namely, they have several taxes levied on land. In the Italian case, for example, there is a tax on real estate that collects 0.6% of the capital stock. In addition, there is a wealth tax on certain assets, and taxes on inheritances, gifts, property transfers and

financial transactions. The tax system in Spain is similar to that of Italy. Moreover, with several taxes, including wealth tax (the only country in the European Union that taxes wealth

on a recurring basis on all assets). Also, in 2021 the financial transaction tax came into force, which helps to explain its low fiscal competitiveness in taxes on property.

Table 10.

Property taxes.

Country	Overall rank	Overall score	Real property taxes rank	Real property taxes score	Wealth/estate taxes rank	Wealth/estate taxes score	Capital/transaction taxes rank	Capital/transaction taxes score
Estonia	1	100.0	1	100.0	1	100.0	1	100.0
Slovak Republic	2	85.8	9	65.5	1	100.0	1	100.0
Latvia	3	80.5	5	68.0	1	100.0	5	80.6
Czech Republic	4	76.9	3	72.2	6	71.3	1	100.0
Lithuania	5	75.1	6	67.7	6	71.3	1	100.0
Sweden	6	73.5	10	62.7	1	100.0	8	65.6
Germany	7	68.7	7	67.7	6	71.3	5	80.6
Luxembourg	8	66.4	2	74.0	6	71.3	8	65.6
Austria	9	65.6	17	43.5	1	100.0	8	65.6
Ireland	10	64.3	4	69.4	6	71.3	14	65.0
Finland	11	61.0	11	61.2	6	71.3	14	65.0
Portugal	12	60.4	12	59.4	6	71.3	8	65.6
Denmark	13	60.2	16	46.9	6	71.3	5	80.6
Hungary	14	57.8	8	65.5	6	71.3	16	50.1
Netherlands	15	57.5	14	52.2	6	71.3	8	65.6
Slovenia	16	51.1	19	36.7	6	71.3	8	65.6
Belgium	17	43.3	13	53.2	19	48.0	16	50.1
Greece	18	42.4	21	30.9	6	71.3	19	46.2
Poland	19	41.6	18	41.3	6	71.3	22	30.6
France	20	36.4	20	36.4	19	48.0	16	50.1
Spain	21	32.0	14	52.2	22	24.6	20	45.6
Italy	22	30.0	22	24.4	19	48.0	20	45.6

Cross-border tax rules

Finally, in the last category concerning cross-border tax rules, the Netherlands ranks first. Its score is driven by a total exemption of dividends and capital gains from abroad, with no country-specific limitations. This makes the country of the tulips an attractive region for foreign investment. There are no taxes on interest and royalties, it has a territorial system and has an extensive network of tax agreements with 92 countries. Hungary also implements a more relaxed control over profits generated abroad, with a full exemption and no withholding on dividends, interest, and royalties. There are rules in place to prevent tax evasion on all income associated with the agreements, although there are certain exceptions regarding countries in the OECD, EU, and EEA, in addition to other quantitative limitations that mitigate the control exerted through the Controlled Foreign Corporation rules.

Slovakia and Ireland are ranked at the lower end. In the case of Slovakia, the primary reason is its rules to prevent tax

evasion. For instance, the Controlled Foreign Corporation rules apply to all incomes associated with agreements without any exemptions. Furthermore, although there are exemptions for participation in dividends and capital gains, limits exist with countries with which Slovakia has Information Exchange Agreements. Additionally, withholdings on dividends, interests, and royalties are taxed at high levels (35% for dividends and 19% for interests and royalties). In the case of Ireland, its low ranking is explained by the absence of exemptions for dividends, although there is a 100% exemption for capital gains. However, there are limitations to this exemption, as it only benefits companies that bring their profits from countries in the European Union or with which Ireland has signed a tax treaty. Moreover, the withholdings on dividends (25%), interest, and royalties (20%) are at a high level. On the positive side, although Ireland has rules for Controlled Foreign Corporations, there are numerous exemptions, as well as an essential purpose test, which limits this control when the income comes from agreements not intended to secure a tax advantage.

Table 11.
Cross-border tax rules.

Country	Overall rank	Overall score	Territorial rank	Territorial score	Withholding taxes rank	Withholding taxes score	Tax treaties rank	Tax treaties score	Anti-tax avoidance rank	Anti-tax avoidance score
Netherlands	1	100.0	1	100.0	4	87.5	7	64.6	2	52.3
Hungary	2	98.9	1	100.0	1	100.0	12	52.8	2	52.3
Luxembourg	3	94.3	1	100.0	4	87.5	11	53.9	2	52.3
Germany	4	91.3	7	95.4	10	64.2	3	69.3	2	52.3
Austria	5	86.5	1	100.0	13	59.6	8	61.0	2	52.3
France	6	84.3	19	71.0	14	54.8	1	100.0	18	31.0
Czech Republic	7	82.9	8	78.6	11	62.7	6	65.8	2	52.3
Sweden	8	79.3	1	100.0	6	75.1	10	56.3	18	31.0
Latvia	9	78.9	8	78.6	1	100.0	18	29.1	2	52.3
Slovenia	10	77.5	20	53.4	11	62.7	20	25.6	1	100.0
Spain	11	76.7	17	74.1	16	48.3	4	68.1	2	52.3
Belgium	12	76.0	1	100.0	22	25.3	4	68.1	2	52.3
Estonia	13	74.6	8	78.6	3	91.3	19	28.0	2	52.3
Finland	14	68.0	8	78.6	9	65.9	14	45.7	15	41.7
Italy	15	64.6	17	74.1	20	38.4	2	74.0	18	31.0
Greece	16	61.8	8	78.6	8	66.6	21	23.2	2	52.3
Lithuania	17	61.7	8	78.6	7	71.0	22	19.7	2	52.3
Portugal	18	57.6	8	78.6	21	37.8	13	48.0	15	41.7
Denmark	19	53.3	8	78.6	18	45.3	15	44.5	18	31.0
Poland	20	53.2	21	35.1	15	51.1	9	57.5	15	41.7
Ireland	21	46.8	22	30.5	17	46.1	16	42.1	2	52.3
Slovak Republic	22	42.2	8	78.6	19	39.4	17	38.6	22	20.3

4

SIMPLE TAXATION DOES NOT LEAD TO WORSE PUBLIC SERVICES

It is crucial to emphasize that fiscal competitiveness does not necessarily entail a reduction in public revenue collection. This aspect is of paramount importance, as it demonstrates that countries with policies requiring high public expenditure can still pursue improvements in fiscal competitiveness without sacrificing the revenues needed to fund public services. The subsequent discussion will explore how these leading countries have managed to strike a delicate balance between efficient tax structures and the sustenance of robust public finances. This balance is key to ensuring that enhancements in fiscal competitiveness are sustainable and beneficial in the long run.

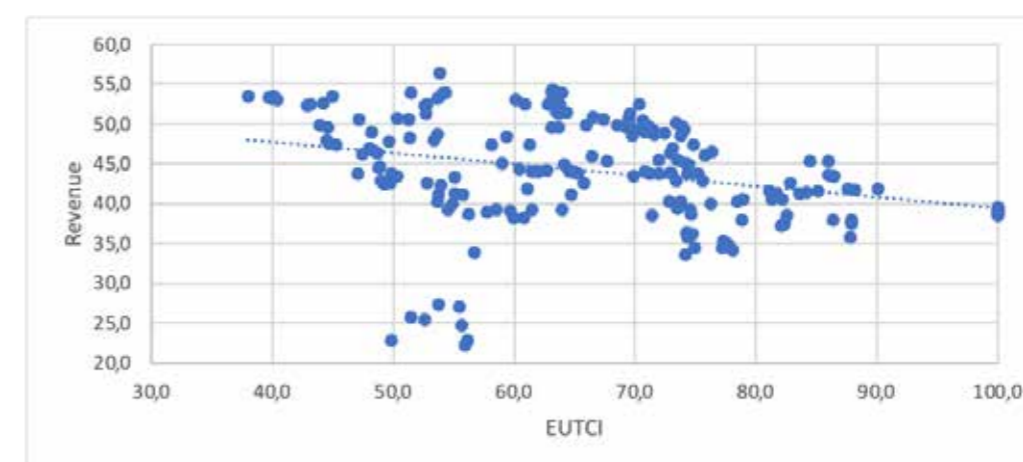
Improving fiscal competitiveness, characterized by simplified tax structures and less detrimental impacts on economic activity, need not be at odds with the maintenance of high-quality public services. Simplifying tax code and reducing the tax burden on business and individuals can stimulate economic growth and innovation. When businesses are less encumbered by complex and heavy taxation, they are more likely to invest in expansion, research, and development, leading to job creation and a healthier economy. This in turn can increase the overall tax base, allowing for sustained or even improved public services without increasing tax rates.

Furthermore, the quality of public services is not solely dependent on the amount of tax revenue generated. Efficient and effective allocation of public funds is crucial. Increasing

tax rates or public spending does not automatically translate into improved services. The key lies in how these funds are managed. It is possible to have high-quality public services with moderate or even low tax rates, provided that the resources are utilized efficiently, waste is minimized, and funds are allocated to areas that yield the highest public benefit. Inefficiencies in public services remains suboptimal. Therefore, a balanced approach that focuses on both efficient tax collection and prudent spending is essential for maintaining quality public services without overburdening the taxpayers.

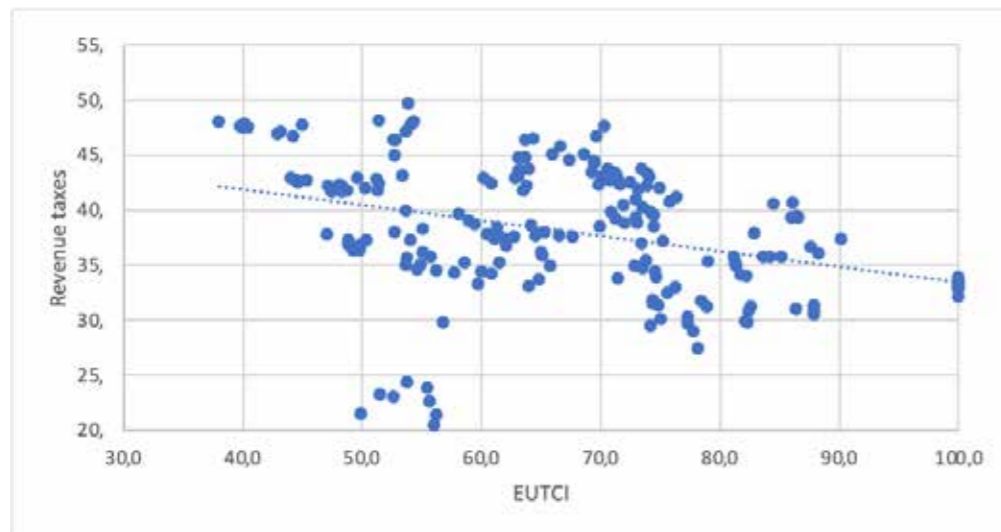
The negative correlation between fiscal competitiveness and public revenue, as depicted in the scatterplots, can be interpreted in a more nuanced way. Higher fiscal competitiveness, achieved through streamlined tax systems and lower rates, does lead to reduced public revenues, but this is not necessarily detrimental. This reduction in revenues is offset by the broadening of the tax base due to increased economic activity. A more competitive fiscal environment encourages business growth, investment, and economic expansion, which, in turn, broadens the taxable base. As the economy grows, the denominator of revenue indicators (like GDP) also expands, allowing countries to sustain adequate revenue levels without imposing high tax rates. This approach supports a healthier economic environment, where revenue is generated from a wider, more robust economic base rather than through high tax burdens.

Figure 6.
Relation between EUTCI and overall government revenue.



Source: own elaboration from Eurostat and Tax Foundation.

Figure 7.
Relation between EUTCI and government revenue - taxes.

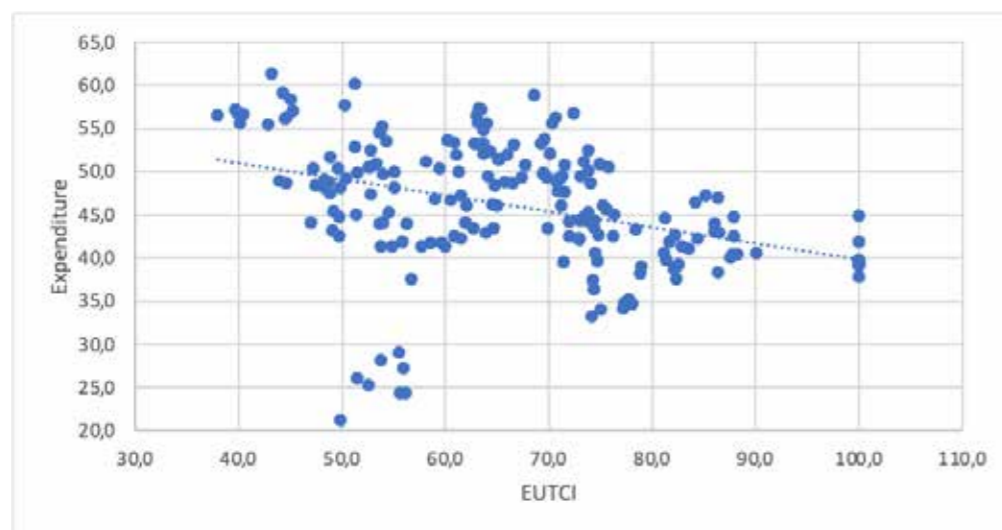


Source: own elaboration from Eurostat and Tax Foundation.

The observed negative correlation between fiscal competitiveness and public spending can be understood through a similar rationale. Countries with more competitive fiscal policies, characterized by efficient tax systems and lower rates, tend to have lower public expenditure. This is partly due to the efficient allocation of resources and the reduced need for high public spending. Additionally, countries with higher fiscal competitiveness often have better reputations in financial

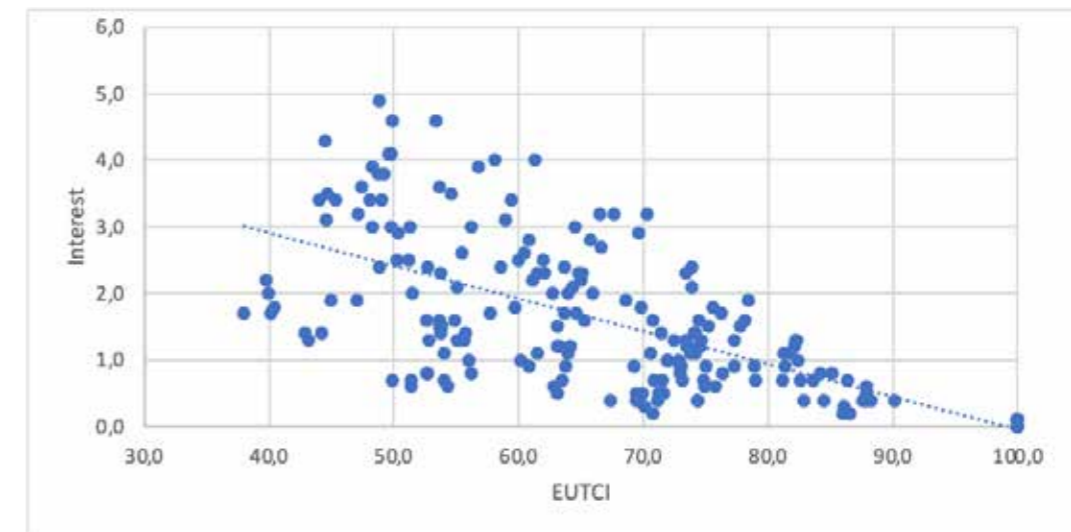
markets, leading to lower interest costs on debt. This decreased expenditure on debt interest allows for the reallocation of funds to other public services, optimizing the use of public resources. Thus, while fiscal competitiveness might initially seem to reduce public spending, it actually enables a more strategic and efficient allocation of resources, contributing to overall economic health and stability.

Figure 8.
Relation between EUTCI and government expenditure.



Source: own elaboration from Eurostat and Tax Foundation.

Figure 9.
Relation between EUTCI and government expenditure- interests.

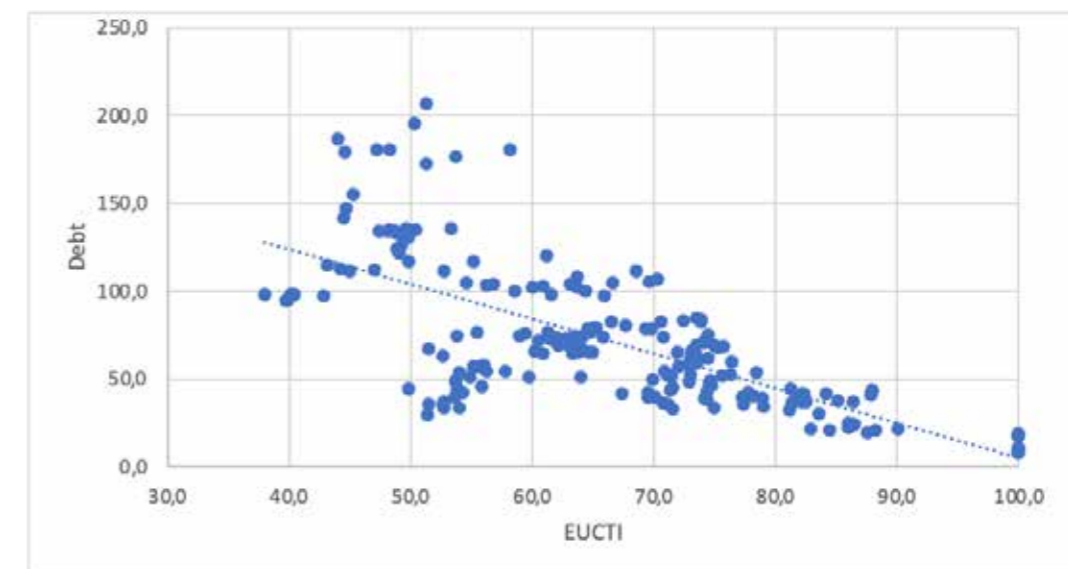


Source: own elaboration from Eurostat and Tax Foundation.

The strong negative correlation between fiscal competitiveness and public debt as a percentage of GDP can be explained by several interconnected factors. Firstly, fiscal competitiveness, which entails simplified tax systems and lower tax rates,

typically leads to a more dynamic and robust economy. As the economy grows, the proportion of public debt relative to GDP naturally decreases, since the GDP is growing at a faster rate than the debt.

Figure 10.
Relation between EUTCI and public debt.



Source: own elaboration from Eurostat and Tax Foundation.

Countries with high fiscal competitiveness attract more investment and business activities. This influx of economic activities not only broadens the tax base, leading to increased tax revenues without the need to raise rates, but also stimulates overall economic growth. As the economy grows, the government's capacity to manage and reduce debt relative to its GDP improves.

Furthermore, a competitive fiscal environment often implies effective government spending. Governments in such environments tend to prioritize investments in sectors that yield high economic returns, such as education, infrastructure, and technology, fostering long-term economic growth. This strategic approach to spending not only boosts economic productivity but also reduces the necessity for future debt-financed public spending.

SUCCESS STORIES

In addition, countries with more competitive fiscal policies are often seen as more economically stable and reliable, which enhances their reputation in international financial markets. This reputation can lead to lower borrowing costs, as lenders view these countries as lower-risk borrowers. Consequently, the cost of servicing existing debt is reduced, allowing for a decrease in the overall debt-to-GDP ratio.

Overall, the negative correlation between fiscal competitiveness and both public revenues, expenditure and debt as a percentage of GDP reflects how effective tax policies and efficient government spending can create a virtuous cycle of economic growth, investment attraction, and debt reduction, contributing to a healthier and more sustainable economic environment.

To prove that fiscal competitiveness is not at odds with quality public services, its relationship with Transparency International's Corruption Perceptions Index (CPI) can be seen. Transparency International's Corruption Perceptions Index, where the worst possible score is 0 (highly corrupt countries) and 100 is the best (very clean countries), it is found that countries with the simplest fiscal systems are also the least corrupt.

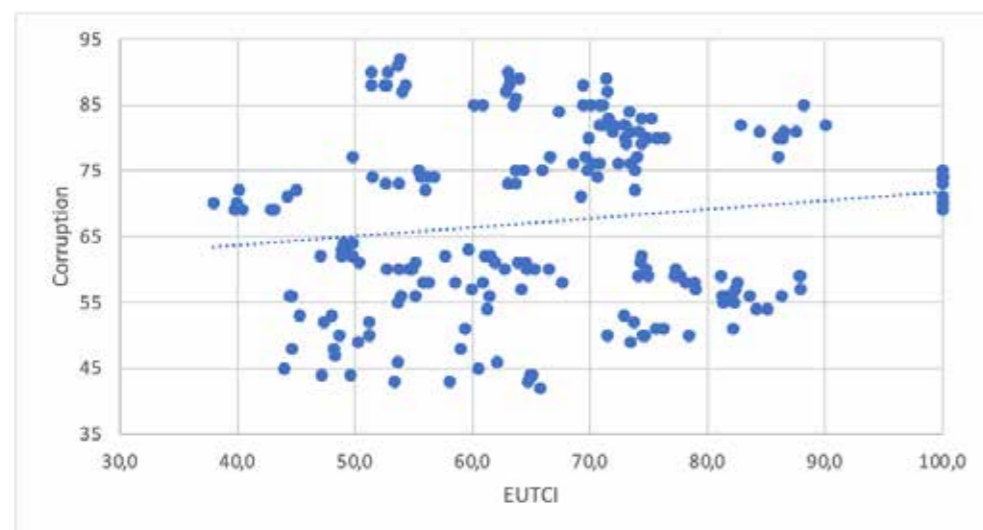
The CPI serves as a valuable proxy for assessing institutional quality and the quality of public services for several reasons. First, it reflects the extent of corruption within a country, which is intrinsically linked to the effectiveness of its institutions. High levels of perceived corruption typically indicate weaknesses in institutional structures, lack of transparency, and inefficiencies

in governance—all of which are detrimental to the quality of public services.

Furthermore, corruption often leads to the misallocation of resources, with funds being diverted away from essential public services to corrupt officials or inefficient projects. This undermines the government's ability to provide high-quality services to its citizens. Conversely, lower levels of corruption suggest stronger institutional integrity, better management of public resources, and more effective delivery of public services. Thus, the CPI can be a strong indicator of not only the level of corruption but also the broader health and effectiveness of a country's institutions and public services.

The positive correlation observed between fiscal competitiveness and lower perceptions of corruption suggests a compelling link between the simplicity and efficiency of tax systems and the integrity of governance. Simplified tax structures with lower tax rates often reduce opportunities for tax evasion and corruption, as they are easier to administer and monitor. Moreover, transparent and straightforward fiscal policies tend to foster greater trust in government institutions, as they are perceived as fair and equitable. This transparency and ease of compliance not only attract businesses and investments, enhancing economic competitiveness, but also promote a culture of integrity and accountability within the public sector. Consequently, countries with competitive fiscal environments and simpler tax systems tend to exhibit lower levels of perceived corruption, reflecting a more transparent and effective governance framework.

Figure 11. **Relation between EUTCI and Corruption Perceptions Index.**



Source: own elaboration from International Transparency and Tax Foundation.

In this section, we will delve into the best practices in fiscal competitiveness for each category of the European Union Tax Competitiveness Index. This comprehensive analysis will highlight the leading countries in various areas, including corporate income tax, consumption taxes, personal income tax, property taxes, and cross-border fiscal rules. By examining

these top performers, we will shed light on the effective strategies and policies that have contributed to their success. This segment aims to provide valuable insights for other nations seeking to enhance their fiscal competitiveness while maintaining a balanced approach to tax policy.

The Celtic miracle

Ireland's success story with its competitive fiscal system, marked by low and simple taxes, is a testament to the power of strategic economic policy. In the 1990s, Ireland made a significant shift by reducing its corporate tax rate to 12.5%, the lowest in the OECD, a move that was initially met with skepticism. However, this bold step resulted in a surge in corporate tax revenue, disproving critics who anticipated a revenue drop. Additionally, Ireland's commitment to maintaining this low rate has been a key factor in attracting a substantial number of multinational companies to its shores, further strengthening its economy.

given the broader context of economic challenges faced during this period.

The 2008 financial crisis had a profound impact on tax revenues globally, and Ireland was no exception. The crisis significantly affected its economy, leading to a temporary decline in tax revenues. However, as the effects of the Great Recession subsided, Ireland's resilient economy not only rebounded to its previous levels of tax revenue but also improved remarkably in the subsequent years. In recent years, the country has seen its corporate tax revenue as a share of GDP increase to an impressive 4.5%. This increase is a testament to Ireland's robust economic recovery and the effectiveness of its fiscal policies. The country's ability to increase tax revenue in the face of lower tax rates underscores the success of its corporate tax strategy, which has been a key component in driving economic growth and stability.

Over the past thirty years, Ireland's approach to corporate tax policy has demonstrated a counterintuitive yet successful model. Contrary to the concern that lowering the corporate profits tax would result in reduced government revenue, Ireland has experienced quite the opposite. In terms of GDP, revenue from corporate tax has increased from approximately 2.5% to around 3.5%. This growth is particularly noteworthy

Figure 12. **Evolution of corporate income tax revenue in Ireland, as a percentage of GDP.**

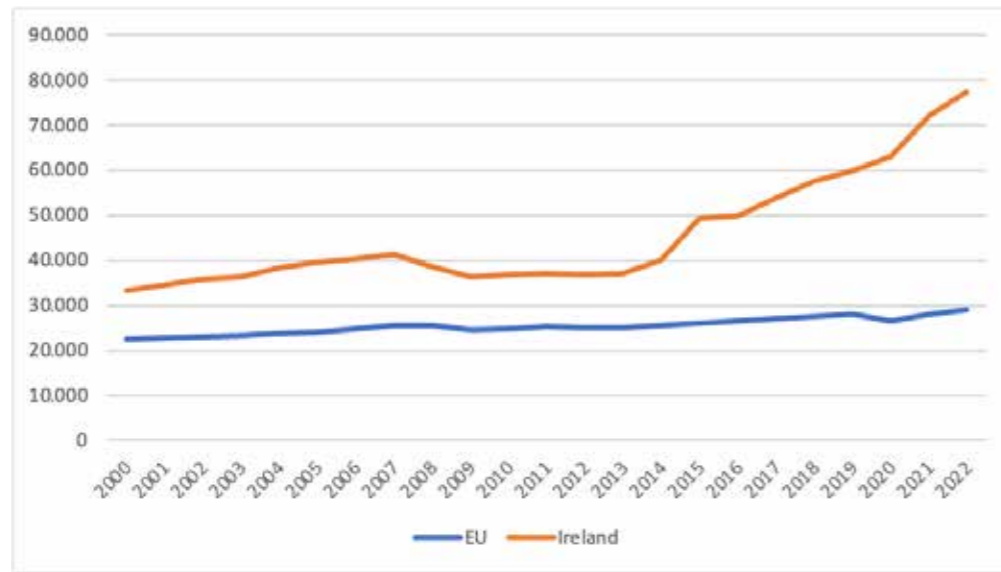


Source: Eurostat.

The impact of this tax strategy on Ireland's GDP per capita, especially in comparison to the EU average, has been remarkable. It illustrates how effective tax policy can spur economic growth, increase government revenue through expanded economic activities, and improve the standard

of living. This approach demonstrates that lower tax rates, when combined with a broad tax base, can lead to sustainable economic growth and robust public finances. As a result, Ireland stands out as a prime example of how competitive fiscal policies can lead to economic prosperity and stability.

Figure 13. Evolution of real per capita income in Ireland and the European Union.



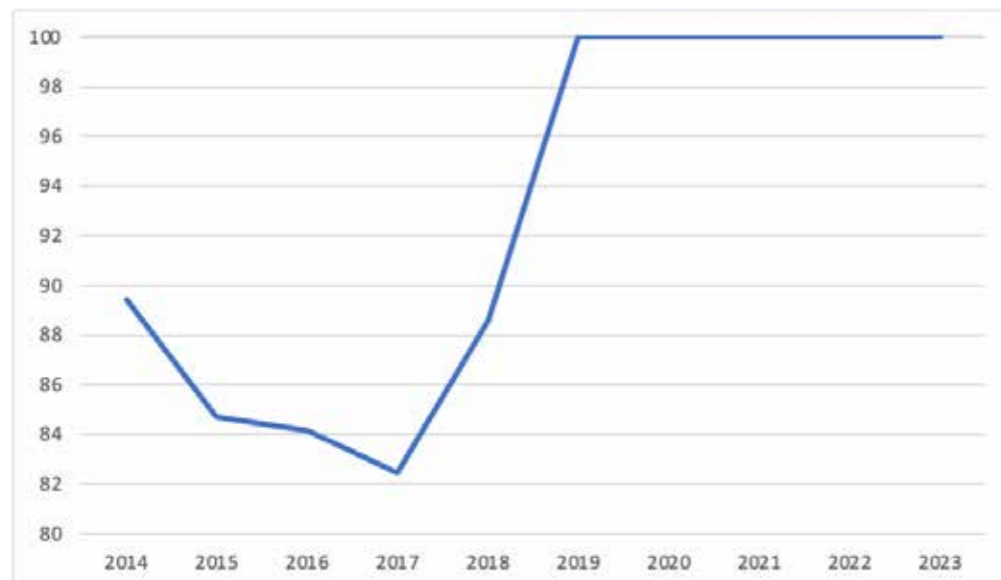
Source: Eurostat.

Latvia's corporate income tax

Latvia has been the leading country in Europe in terms of corporate income tax for several years, so it is perhaps worth taking a look to see what the structure of this tax in this small country is based on. Its model could be an interesting case

to study and imitate for other countries wishing to improve tax competitiveness, especially in a global environment of attracting talent and business investment.

Figure 14. Evolution of the corporate income tax category score in Latvia.



Source: Own elaboration.

Latvia's Corporate Income Tax (CIT) regime, in place since 2018, positions the country as highly competitive in terms of its fiscal system. This competitiveness is rooted in two fundamental principles of the CIT structure:

- **Deferred Tax Payment:** The CIT is not levied at the time of earning income. Instead, the tax payment is deferred until the income is distributed or until expenses that do not contribute to revenue generation or company development are incurred. This postponement of tax liability to the point of distribution rather than accrual aligns tax payments more closely with cash flows, reducing the financial strain on companies and promoting reinvestment and growth.
- **Tax Rate Structure:** The CIT rate is set at 20% for gross distributed income. This rate is calculated as 20% of the gross amount. This straightforward and moderate rate makes Latvia's tax system transparent and predictable, enhancing its appeal to both domestic and international businesses.

Items subjected to CIT include dividends, deemed dividends (like share capital reduction through profit capitalization), non-business expenses, and certain interest and loan transactions, particularly those exceeding thin capitalization thresholds or involving related parties. However, standard financial depreciation, except for luxury vehicles and non-business assets, is considered a deductible expense.

The CIT model in Latvia reflects a strategic approach to taxation, where tax liabilities are aligned with companies'

actual financial outflows. This structure supports businesses in maintaining healthier cash flows, encouraging investment and expansion. Moreover, the clarity and simplicity of the tax rules reduce administrative burdens and compliance costs, making Latvia an attractive destination for both established companies and startups.

Additionally, Latvia's corporate tax system is further simplified by the absence of certain tax incentives often seen in other jurisdictions. Notably, Latvia does not employ measures such as the patent box, nor does it impose additional charges or differentiated tax rates for specific economic activities. This straightforward approach contributes significantly to the simplicity and transparency of the tax regime. By avoiding complex incentives and special rates, Latvia ensures a level playing field for all businesses, enhancing administrative efficiency and reducing compliance costs. Such simplicity and neutrality in tax policy are highly valued in the European Union Tax Competitiveness Index, where Latvia's system is likely to perform well. The absence of complex tax incentives and differential rates not only streamlines the tax system but also aligns with the broader EU goals of fair and efficient taxation, positioning Latvia favorably within the EU's competitive fiscal landscape.

In summary, Latvia's CIT system, with its deferral of tax liability to the point of income distribution and a reasonable flat tax rate, enhances the country's fiscal competitiveness. It incentivizes economic growth and investment, supporting the broader objective of creating a robust, dynamic, and attractive business environment within the European Union.

Slovakia's income tax

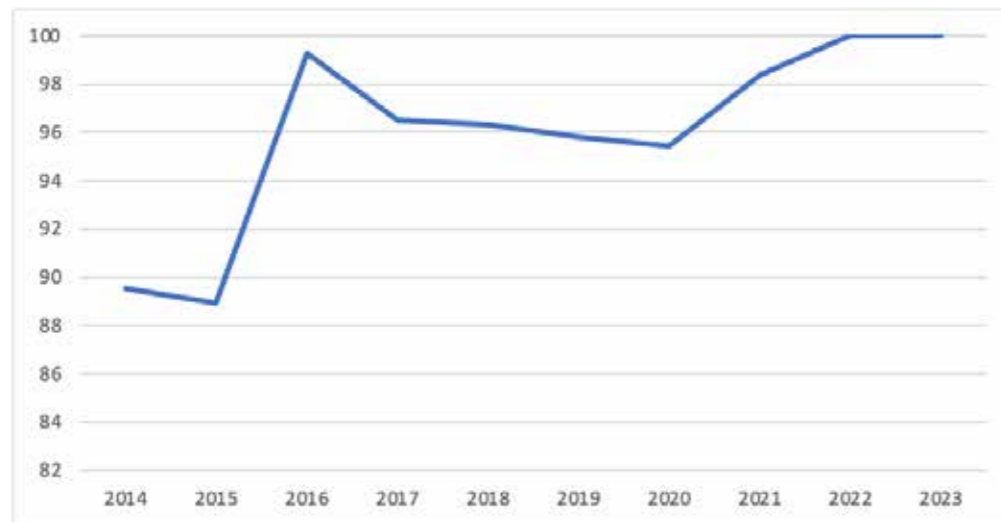
Slovakia's ascent to a leading position in personal income tax competitiveness within the European Union is a notable achievement. It has consistently ranked first in this category in the European Union Tax Competitiveness Index for the last two years, setting a benchmark for other countries to follow. The foundation of Slovakia's success lies in its moderate and straightforward tax rate structure. Unlike many of its European counterparts, Slovakia maintains a simplified tax system that eschews additional surcharges on the main income tax. This simplicity reduces the administrative burden for both taxpayers and tax authorities, fostering greater compliance and efficiency.

Moreover, Slovakia's approach to dividend taxation is particularly commendable. The country offers a notably low tax rate on dividends, which stands in contrast to the higher

rates prevalent in other European nations. This policy not only benefits individual investors but also encourages investment in Slovak companies, thereby stimulating economic growth. By avoiding complex tax brackets and maintaining a clear, progressive tax system, Slovakia ensures a fair distribution of the tax burden while supporting economic development and attracting foreign investment.

This balanced approach to taxation, combining equity with economic pragmatism, has not only enhanced Slovakia's fiscal competitiveness but also contributed to its overall economic stability and growth. The country's tax system serves as an exemplar of how effective tax policy can harmonize the goals of revenue generation and economic vitality, a strategy that has rightly earned it top rankings in the European Union Tax Competitiveness Index.

Figure 15.
Evolution of the income taxes category score in Slovakia.



Source: own elaboration.

The Slovak Republic's personal income tax system is recognized for its competitiveness among developed countries. The tax rates in Slovakia are structured as follows: the tax base of up to EUR 41,445.46, which is 176.8 times the subsistence level for 2023, is subject to a 19% tax rate. Any income exceeding this threshold is taxed at 25%. This progressive tax system is relatively straightforward and moderate compared to many other developed countries.

Dividend income is also taxed under specific conditions. Dividends arising from profits before 2004 and after 1 January 2017 are subject to a 7% tax rate if paid from abroad, and a 7% withholding tax if paid by a Slovak company. Additionally, income of constitutional authorities from dependent activity is subject to a special tax rate of 5%, in addition to the standard tax calculated. Income from capital gains is included in a specific tax base taxable at a 19% rate.

The Slovakian tax system's strength lies in its simplicity and clarity, making it one of the least damaging to economic activity among developed nations. The moderate tax rates encourage compliance and reduce the administrative burden on both taxpayers and the government. This approach to taxation enhances Slovakia's attractiveness as a business and investment destination, thereby boosting its overall economic competitiveness.

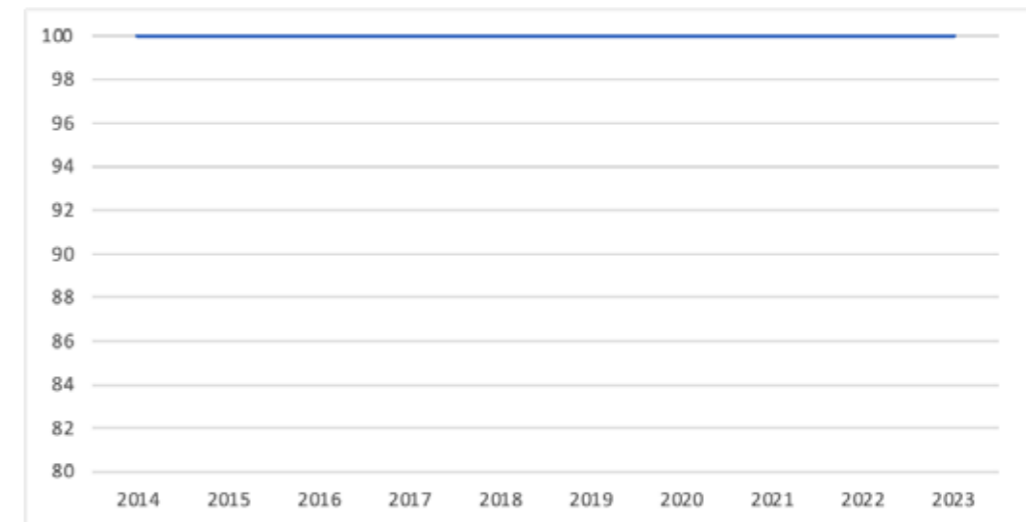
In conclusion, Slovakia's personal income tax system exemplifies a balance between equity and efficiency. The clear, progressive structure and reasonable tax rates ensure a fair tax burden distribution while supporting economic growth. This system is a key factor in Slovakia's economic success and its high ranking in fiscal competitiveness among developed nations.

Luxembourg's consumption tax

The evolution of the consumption tax in terms of the European Union Tax Competitiveness Index has a very simple interpretation. Since 2014, Luxembourg has remained the leader in this category. This is due to both a low tax rate

(17%) and a broad tax base, which makes this country stand out from the rest of the European Union countries. As seen in Figure 16, its score in this category remains unchanged – at 100 points!

Figure 16.
Evolution of the consumption tax category score in Luxembourg.



Source: own elaboration.

Luxembourg's VAT system, a cornerstone of its fiscal policy, exemplifies a blend of simplicity and competitiveness. Initially introduced in 1970 with an 8.0% rate, the VAT has undergone several changes, reflecting the country's adaptability. As of 2022, the standard VAT rate stands at 17.0%, lower than the OECD average, alongside reduced rates of 3%, 8%, and 14% for various goods and services. Luxembourg's VAT Revenue Ratio (VRR), at 0.89 in 2018, surpasses the OECD average, indicating efficient tax collection and compliance.

The country's status as a key financial center and e-commerce hub within the EU significantly contributes to its high VRR. Financial services, a major sector in Luxembourg, are exempt from VAT even when provided across EU borders. This exemption strategically positions these services as input-taxed, enhancing the sector's competitiveness. Prior to 2015, Luxembourg taxed electronic services and telecommunications provided to EU consumers, but a shift in policy now places the

tax burden in the consumer's country, affecting Luxembourg's VAT revenues.

In 2023, Luxembourg introduced a temporary reduction in VAT rates as part of an anti-inflation package. This included a 1% reduction across most VAT rates, a measure intended to alleviate the economic impacts of inflation. However, this reduction is set to end by 2024, reverting to the former rates of 17%, 14%, 8%, and 3%.

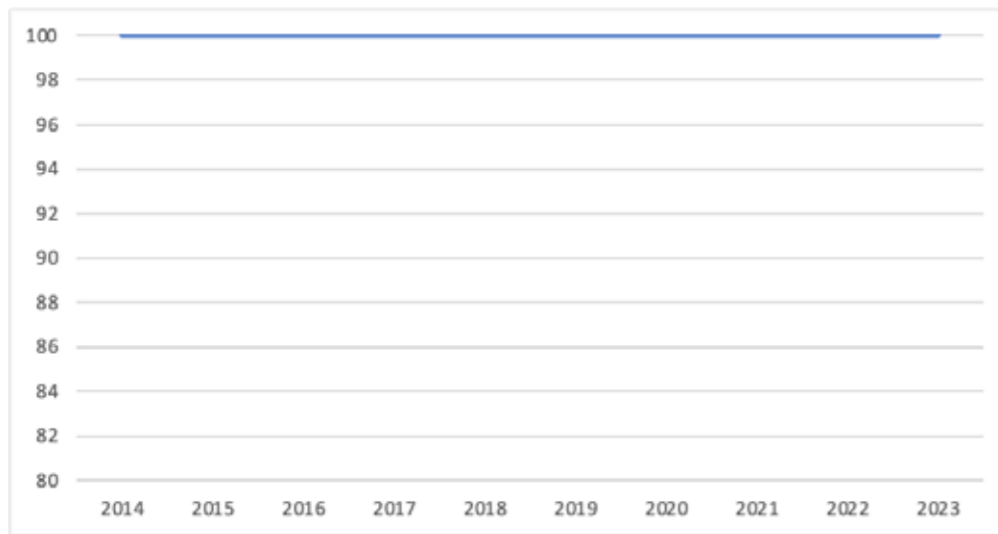
In summary, Luxembourg's VAT framework, characterized by lower-than-average rates and strategic exemptions, underpins its competitive fiscal environment. The temporary measures in response to inflation further demonstrate the system's flexibility and responsiveness to economic conditions. This approach balances simplicity in tax structure with Luxembourg's strategic economic roles, fostering a favorable climate for business and trade.

Estonia's Land Tax

The case of property taxes in Estonia is similar to the situation in Luxembourg explained in the previous subsection. Since the first year in which the Tax Competitiveness Index is compiled,

Estonia ranks first in this category of property taxes, and in each and every subcategory. Figure 17 shows the score has remained unchanged, with a 100 points result.

Figure 17.
Evolution of the property tax category score in Estonia.



Source: own elaboration.

The reason is as simple as its tax structure, namely, there is only one simple, very well designed property tax: the land tax. The Estonian land tax, known as “maa maks,” is a state tax governed by the Land Tax Act, applying to all land except where economic activities are prohibited. It is paid entirely to local authority budgets. The tax liability arises if the amount exceeds 5 euros within a single local government territory, and if the tax is below this threshold, it is not payable. Payment deadlines are 1st April and 1st October, with different requirements based on the tax amount. Land tax payers include owners or users of land—private individuals, businesses, and the state.

Land tax is calculated based on the land’s taxable value, determined during mass valuation by the Land Board. In 2022, a mass valuation led to changes in land values, affecting land tax amounts. Tax rates, set to reduce the impact of land revaluation, range from 0.1% to 2.5%, and will be 0.1% to 1.0% from 2024. These rates apply differently to residential land, profit-yielding land, and other land types.

A protective mechanism limits land tax increases to 10% per year or 5 euros, whichever is higher, until reaching the amount based on the taxable value and tax rate. This mechanism ensures a gradual increase in tax burdens.

Tax exemptions and incentives are maintained, including exemptions for land under homes, with specific size criteria in densely populated areas and elsewhere. These exemptions extend to compound intended purpose lands if residential land is one of the purposes. Local governments may grant additional exemptions to pensioners and repressed persons.

The calculation formula from 2024 considers the land value, tax rate, protective mechanism, and tax exemptions/incentives. For example, a taxable land value of 2,400 euros in 2023 resulted in a 60 euro tax (at a 2.5% rate), while a value of 20,000 euros in 2024 would lead to an estimated tax of 66 euros (0.5% rate, 10% increase from the previous year).

The Estonian land tax system is competitive due to its simplicity and its role in incentivizing economic activity. The tax rates are moderate and clearly defined, reducing administrative complexity and uncertainty for landowners and businesses. This transparency and predictability in tax obligations make financial planning more manageable, encouraging investment and development. The protective mechanism, which limits annual tax increases, ensures that tax burdens do not escalate rapidly, maintaining affordability and stability in the property market. Furthermore, the exemptions and incentives, particularly for residential land, support homeownership and can stimulate local economies by freeing up financial resources for other expenditures. By balancing revenue generation for local governments with these taxpayer-friendly features, Estonia’s land tax system contributes to a favorable business and investment climate, fostering economic growth and competitiveness.

Focusing solely on land tax, as opposed to taxing buildings, other properties, donations, and inheritances, offers several advantages for fiscal competitiveness:

- **Simplicity and Efficiency:** A single land tax is simpler to administer and understand, reducing compliance costs and administrative burdens for both taxpayers and the government. This efficiency can make a tax system more attractive to investors and businesses.
- **Incentive to Develop:** Taxing only land and not the improvements (like buildings) encourages property development and utilization. In systems where buildings are also taxed, there can be a disincentive to improve or develop land due to the increased tax burden.
- **Stability of Revenue:** Land value tends to be more stable and predictable compared to building

values, which can fluctuate significantly due to market conditions. This stability in the tax base can lead to more predictable revenue for governments.

- **No Disincentives for Property Improvement:** By not taxing buildings or improvements, there’s no disincentive against enhancing property value through renovations or developments, which can drive economic growth and improve living standards.

- **Avoidance of Double Taxation:** By not imposing taxes on inheritances and donations, it avoids the issue of double taxation where assets might be taxed multiple times through their lifecycle.

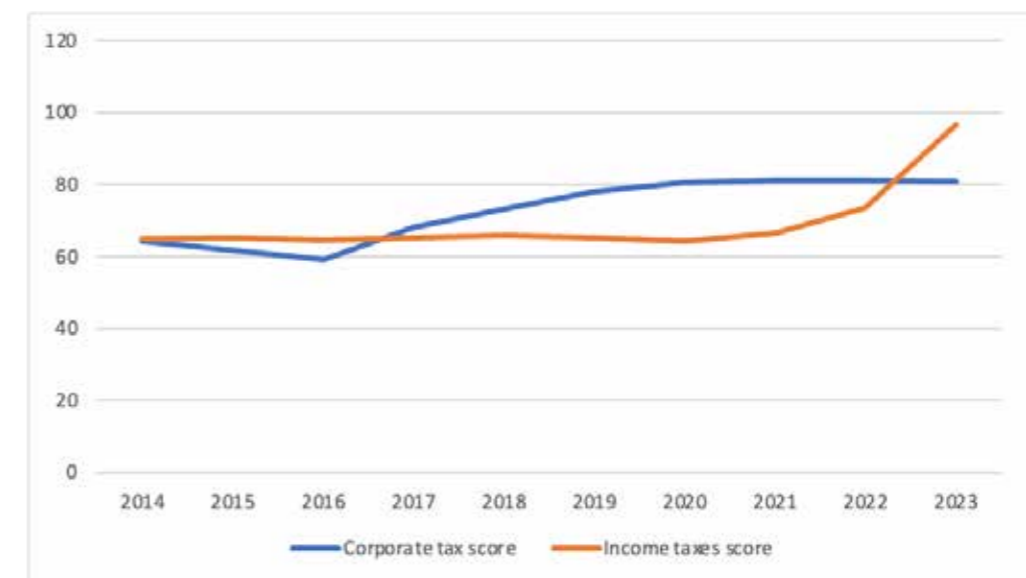
In summary, taxing only land, rather than a broader range of assets, can lead to a more efficient, growth-friendly, and competitive fiscal environment. This approach encourages property development and investment, leading to broader economic benefits.

Hungary’s tax reform

Unlike the previous cases, Hungary has not always stood out for having a competitive tax code. Its positive evolution starts in 2016 with the tax on corporate profits and, subsequently on income tax. This explains why Hungary, currently an

intermediate-high position in the European Union Tax Competitiveness Index, and would be higher if it did not maintain such a high consumption tax.

Figure 18.
Evolution of the corporate and income taxes category score in Hungary.



Source: own elaboration.

Hungary’s fiscal model, characterized by a flat personal income tax and a low corporate tax rate, is a key contributor to its economic competitiveness. The shift to a flat income tax rate of 15%, down from a range of 17% to 32%, simplifies the tax system and enhances transparency, leading to increased consumer spending and higher fiscal revenues. Additionally, Hungary’s corporate tax rate, reduced to 9% from 19%, now stands as the lowest in the EU and OECD. This significant reduction has not only made Hungary more attractive for business investments but, contrary to expectations, has not led to a decrease in total tax revenues.

The success of this tax policy can be attributed to the Laffer curve effect, where lower tax rates can lead to higher tax revenues by stimulating economic activity and compliance. The implementation of a flat tax system simplifies tax

administration and reduces the tax burden on individuals and corporations, encouraging investment, entrepreneurship, and economic growth. Moreover, the lowered corporate tax rate positions Hungary as an appealing destination for multinational corporations, further driving economic growth.

Hungary’s economic recovery following the financial crisis, with a notable increase in GDP growth and a decrease in unemployment rates, underscores the effectiveness of these tax reforms. The tax policy approach also included moderate reductions in public spending, from around 50% of GDP in 2010 to 46.7% in 2016 and 2017 (the years in which the Hungarian tax reform took place), contributing to a decrease in national debt from 80% to 70% of GDP in the same period.

Overall, Hungary’s fiscal policy, with its flat income tax and low corporate tax rate, serves as a model for creating a tax environment that promotes economic vitality and

“Out of menu”: full expensing in the UK

Full expensing is an underutilized tool in developed countries, despite its potential benefits. For this reason, it deserves to be highlighted as “off the menu” success stories. Of the sample analyzed, only Latvia and Estonia apply it indirectly, since by applying a cash flow tax, a full deduction of the cost of capital is allowed. Although this policy does not currently fall within the tax regime of the sample countries analyzed, full expensing should be considered as it provides multiple benefits.

The full expensing is a tax policy that allows businesses to immediately deduct the full cost of certain capital investments, like machinery, equipment, or technology, from their taxable income in the year of purchase. This differs from traditional depreciation methods, where the cost is spread over the asset’s useful life. Full expensing can incentivize companies to invest more in capital assets by providing immediate tax relief, thus potentially accelerating economic growth, productivity, and job creation. This policy is often seen as a way to stimulate business investment and economic activity.

The UK has been one of the countries that successfully applied the full expensing method for businesses, bringing notable benefits to the corporate sector. This policy allows businesses to immediately deduct the full cost of certain investments in new or improved technology, equipment, or buildings, effective from 1 April 2023 to 31 March 2026. The intent is for this relief to continue post-April 2026, subject to viability assessments by the UK Chancellor.

Prior to 2021, the UK system for plant and machinery depreciation involved two “pools” with different rates. The transformation to full expensing was phased in with the introduction of a 130% super-deduction for some machinery and equipment in 2021. The policy shift allowed businesses to deduct the full cost of machinery investment from their tax bill in the same way they deduct wages. Under current rules, firms can now benefit from a 100% up-front deduction for most plant and machinery investments.

For assets that fall under the special pool, such as electrical systems and long-life assets, a 50% first-year allowance is available, which is a significant acceleration compared to the previous 6% writing down allowances. However, it’s important to note that full expensing applies only to plant and machinery expenditures; buildings, structures, land, and certain other assets like cars are not eligible. Additionally, businesses need to claim the allowance in the period in which the expenditure is incurred.

The introduction of full expensing in the UK is expected to bring several benefits. By alleviating tax code bias and

competitiveness. This approach not only simplifies the tax system but also creates a favorable business climate that attracts investment and stimulates economic activity.

incentivizing investment, the policy is projected to raise GDP by 0.9%, investment by 1.5%, and wages by 0.8%, relative to pre-2021 laws. This shift indicates a significant positive impact on the economy, encouraging businesses to invest more, which ultimately raises worker productivity, boosts wages, and creates more jobs.

In terms of revenue impact, the short- and long-term costs of full expensing differ. The peak-year cost of expensing was estimated at £9.3 billion in 2022, with a long-run cost of £1.3 billion. Over time, as old assets under the previous regime are retired, the cost falls, leaving a lower annual cost of accelerating deductions on new investment.

In summary, the UK’s adoption of full expensing represents a significant milestone in its tax policy, aimed at enhancing capital investment and economic growth. By allowing a 100% deductible first year allowance on qualifying expenditures, the policy simplifies the tax process for businesses and incentivizes them to invest in their growth, ultimately contributing to the broader economic development of the country.

The potential benefits of full expensing are substantial:

- **Enhanced Tax Relief:** Companies can write off the full cost of qualifying assets, reducing their taxable profits significantly. This accelerated write-off offers a considerable advantage, allowing companies to reinvest more funds into their operations.
- **Incentives for Investment in Long-Term Assets:** While certain assets like long-life assets don’t qualify for full expensing, companies can still claim a 50% first-year allowance for these assets, providing an additional incentive to invest in long-term assets.
- **Stimulated Economic Growth:** Research by the CBI and Oxford Economics indicates that a permanent full expensing policy could lead to a 21% increase in the level of business investment per year by 2030/31, equating to a 2% increase in GDP. This suggests a significant positive impact on overall economic activity.
- **Improved Cash Flow for Businesses:** By improving cash flow, full expensing boosts investment, profits, and employment, which in turn increases tax receipts, positively impacting the government’s balance sheet. This benefit is particularly crucial for businesses recovering from financial setbacks or aiming for expansion.

- **Global Tax Competitiveness:** Implementing full expensing helps maintain a country’s competitiveness in global tax policy. The UK, for instance, ranks highly in the OECD for capital allowances for machinery due to this policy, demonstrating its effectiveness in attracting business investment.

In summary, full expensing is a critical tool for businesses, encouraging investment in capital assets and promoting economic growth. By offering immediate tax relief, it enhances a company’s ability to invest and expand, contributing to the broader economy’s health and competitiveness.

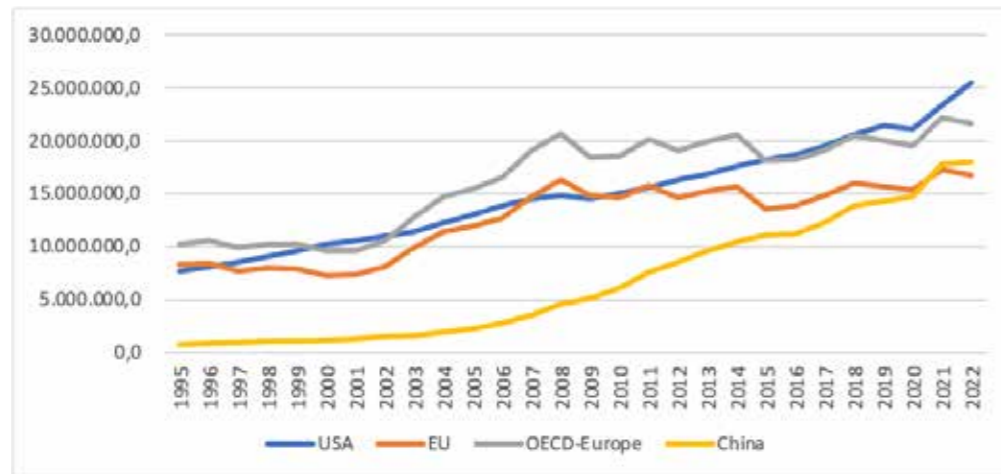
A TAX REFORM PLAN FOR GROWTH AND OPPORTUNITY

The previous sections have emphasized the need for European countries to implement a competitive tax code that reduces tax burdens on taxpayers. Traditionally, the focus is on the tax burden, using data from organizations such as the OECD. However, tax compliance goes beyond the simple payment of taxes, including numerous formal and ancillary obligations. These compliance costs are little considered in legal texts and rarely accurately assessed¹. There is no systematic quantification of these costs, but in some countries, they are estimated to be as high as 1.4% of GDP². Success stories show that a burdensome tax system is not necessary. It is possible to obtain sufficient resources to finance public services with an efficient tax system

that reduces the regulatory burden on taxpayers.

Europe needs a plan that promotes growth and stimulates the productive capacity of its economy. In today's globalized world, tax systems must be as simple as possible in order to attract foreign investment and stimulate domestic investment, as well as helping the labor supply to expand. In 2008, Europe was slightly ahead of the United States in terms of gross domestic product. Today, both the European Union as a whole and the OECD member states have been overtaken by the United States. In addition, China has gradually closed the gap and by 2022 has a higher output than the EU.

Figure 19. GDP evolution in selected countries, in millions of dollars.



Source: OECD.

A well-designed fiscal reform can significantly stimulate incentives and promote long-term economic growth. By restructuring tax systems to be more efficient and less burdensome, such reforms can encourage investment and innovation. Lowering corporate tax rates, for example, frees up capital for businesses to invest in new technologies and expansion efforts, leading to job creation and increased productivity. Simplifying the tax code also reduces compliance costs, allowing entrepreneurs and small businesses to focus more on their core activities rather than on bureaucratic processes.

In the context of fiscal reform, the reduction of regulatory complexity and bureaucracy is crucial for enhancing productivity. Excessive regulation and bureaucratic procedures can stifle innovation, deter investment, and hamper the efficiency of businesses, ultimately slowing economic growth. According to a policy brief by the European Centre for International Political Economy, “The EU has had positive economic growth, but it has been slow in comparison with other developed economies. If European countries were states in the United States, many of them would belong to the

group of poorest countries.”³ This statement underscores the impact of regulatory environments on economic performance. Simplifying regulations and reducing bureaucratic hurdles can lead to more dynamic and competitive markets, fostering an environment where businesses can thrive and contribute more effectively to economic growth. Therefore, fiscal reform aimed at streamlining regulatory frameworks and reducing bureaucracy can be a significant catalyst for long-term economic development.

The Tax Foundation has published a report in which it mentions what a tax reform that favors a climate conducive to economic activity, private initiative and entrepreneurship should consist of. Its main ideas are described in the following pages.⁴

Better cost recovery for capital investment

This measure is essential to encourage companies to continue investing in physical capital (machinery, technology, new ideas) and in human capital (hiring and training new personnel). Taxes

on corporate profits are very costly in terms of investment and lost production. In addition, workers also suffer from this tax in terms of lower wages, less training and fewer job opportunities.

As mentioned above, the practice of full expensing should be generalized. The reason is that companies, when incurring capital costs, should deduct these costs over several years, according to the depreciation schedules allowed by the tax rules. The delay in deducting these costs means that the real value of the asset is lower than its original value. In addition, the delay in deductions increases the after-tax cost of making investments.

In the European Union countries, this practice is only carried out in Lithuania and Estonia, because they tax only the distributed profits, so it is possible to deduct the costs of the investments made. This would be a major step forward in facilitating the growth of productivity and the economy, thus preventing Europe from continuing to lose ground to its competitors in global trade.

Table 12. Limits to cost recovery in OECD Member States, 2023.

Country	Machinery	Industrial Buildings	Intangibles
Austria	88.40%	56.70%	73.80%
Belgium	87.00%	54.80%	87.00%
Czech Republic	87.40%	54.30%	84.10%
Denmark	82.70%	47.90%	81.30%
Estonia	100.00%	100.00%	100.00%
Finland	93.50%	51.90%	73.80%
France	88.00%	54.80%	87.00%
Germany	84.70%	39.10%	87.00%
Greece	73.80%	47.90%	73.80%
Hungary	81.60%	27.90%	73.80%
Ireland	78.70%	47.90%	64.60%
Italy	87.00%	57.70%	96.50%
Latvia	100.00%	100.00%	100.00%
Lithuania	90.50%	82.70%	96.60%
Luxembourg	87.30%	47.90%	87.00%
Netherlands	81.30%	33.80%	87.00%
Poland	73.80%	33.80%	87.00%
Portugal	88.80%	54.80%	73.80%
Slovak Republic	87.40%	54.80%	87.00%

Source: Tax Foundation.

1 See the following link for more information: <https://nosoloiimpuestos.es/2023/01/24/los-costes-del-cumplimiento-tributario-un-concepto-poco-conocido/>.

2 See the following link for more information: <https://taxfoundation.org/blog/tax-compliance-costs-irs-regulations/>.

3 This report is available at the following link: <https://ecipe.org/publications/comparing-economic-growth-between-eu-and-us-states/>

4 The report is available at the following link: https://files.taxfoundation.org/20220218131035/10-Tax-Reforms-for-Economic-Growth-and-Opportunity.pdf?_gl=1*vu6sth*_ga*Mzk2NDE0MDIwLjE3M-DAlNjgxODc*_ga_FP7KWDV08V*MTcwMTYyOTc0Ny4yLjAuMTcwMTYyOTc0Ny42M2C4wLjA.

Simplify cost recovery for Research and Development

Patent boxes are widespread in several European Union countries, but they are not the best option when it comes to encouraging this type of research and development-related activities. They make it difficult to comply with the obligations necessary to obtain the tax benefits, so

they increase the cost of the companies and some of them, especially the small ones, might not claim their tax benefits. Also, in the absence of profits, which is common in the early years of a company's activity, it may not have sufficient tax liabilities to deduct these costs. Therefore, also in this type of cost, companies should have the right to full expensing. Small and medium-sized companies could be the main beneficiaries of this measure.

Table 13.
Existence of patent boxes in OECD Member States, 2023.

Country	Patent Box
Austria	No
Belgium	Yes
Czech Republic	No
Denmark	No
Estonia	No
Finland	No
France	Yes
Germany	No
Greece	No
Hungary	Yes
Ireland	Yes
Italy	No
Latvia	No
Lithuania	Yes
Luxembourg	Yes
Netherlands	Yes
Poland	Yes
Portugal	Yes
Slovak Republic	Yes
Slovenia	No
Spain	Yes
Sweden	No

Source: Tax Foundation.

Maintain a competitive corporate tax system

The third reform, focusing on maintaining a competitive corporate tax system, emphasizes the importance of aligning corporate tax rates and structures with global standards to ensure a country's businesses remain attractive for investment. This reform advocates for a reduction and simplification of international tax rules. The goal is to create a more streamlined and less burdensome tax environment for multinational corporations.

This approach recognizes the increasingly global nature of business and the need for tax systems to be competitive on an international scale. By reducing complexities and potential disincentives for foreign and domestic investments, the reform seeks to foster a more conducive environment for business growth and international trade. This includes revising tax

regulations that may currently be placing domestic companies at a disadvantage in the global market.

The reform is not just about lowering tax rates; it's also about simplifying the tax code to reduce administrative burdens and compliance costs. This includes re-evaluating existing tax structures that may be overly complicated or outdated, potentially discouraging businesses from expanding or investing in certain regions. By streamlining tax regulations and ensuring they are in line with international norms, the reform aims to boost economic competitiveness, attract foreign investment, and stimulate economic growth.

In connection with the international coordination of corporate taxes, the addition of a global minimum tax, coordinated by the OECD, is a significant aspect of the broader discussion on maintaining a competitive corporate tax system. This proposal,

if adopted, would set a global baseline corporate tax rate of 15%. Estonia, alongside Hungary and Poland, has expressed opposition to this proposal, arguing that it conflicts with the European Union's legislation and autonomy in setting its tax policies. Estonia, known for its digitalization and liberalization policies, has a unique corporate tax system where taxes are only applied to distributed profits, not reinvested earnings. The Estonian government, as mentioned by Finance Minister Keit Pentus-Rosimannus, is concerned that the global minimum tax might undermine its competitive tax environment and aligns with other European nations skeptical about this OECD-led initiative. Additionally, Estonia has suggested that any such tax reform should be implemented simultaneously by major economies, including the United States, to avoid any unilateral advantages or protective measures in the fiscal domain⁵.

Remove the double taxation of corporate income

Double taxation occurs when two or more jurisdictions tax the same income or profit. This often happens with multinational corporations that operate in different countries. Each country may tax the company's profits, leading to a situation where the same income is taxed twice. This issue is a significant concern in international business, as it can discourage companies from investing in foreign markets due to the higher tax burden.

Countries like Australia and Estonia have developed systems to mitigate the issue of double taxation. Australia provides foreign tax credits, allowing companies to offset taxes paid abroad against their Australian tax liabilities. Estonia, on the other hand, adopts a unique approach by only taxing distributed profits. This means that reinvested profits are not subject to corporate income tax, effectively preventing double taxation of these earnings. Both approaches demonstrate different strategies to address the problem, making their business environments more attractive to international investors and companies.

Clean up the structure of the business tax code

The fifth point of the reform, focusing on cleaning up the structure of the business tax code, underscores the necessity of streamlining and simplifying business taxation. This involves a thorough reevaluation and potential elimination of various tax expenditures that may be considered inefficient or outdated. Such a reform aims to create a more straightforward and less burdensome tax environment, encouraging business growth and economic efficiency.

By eliminating unnecessary complexities and special provisions in the tax code, the reform seeks to foster a more equitable and transparent tax system. This not only reduces administrative costs for businesses but also enhances the overall effectiveness

of the tax system, contributing to a healthier economic environment and promoting fair competition among businesses.

Return to competitive free trade policies

The sixth point of the tax reform focuses on the need to return to competitive free trade policies. This involves reversing recent trends towards increased trade restrictions and tariffs that have been observed globally. Such restrictive measures can lead to increased costs for consumers and businesses, hinder economic growth, and create a less efficient global market. By advocating for the reduction or elimination of these barriers, the reform aims to stimulate economic activity, enhance global cooperation, and promote a more open and competitive international trading environment.

In the context of the European Union, which has seen its own share of trade restrictions in recent years, the emphasis is on fostering open and fair trade. The EU has historically been a proponent of free trade, but like many regions, has faced challenges with trade barriers, both internally and in its external trade relations. The reform's approach would encourage the EU to continue working towards reducing these barriers, not only within its single market but also in its trade relationships with other countries. This would align with the EU's broader objectives of promoting economic growth and competitiveness on a global scale.

Streamline social benefits

The seventh point of the fiscal reform emphasizes the need to streamline social benefits, particularly those related to child care and work. The proposal suggests consolidating these benefits into a more global one to simplify the process for beneficiaries. This consolidation aims to reduce the administrative complexity and overlap of various programs, making it easier for individuals to understand and access the benefits they are eligible for.

Moreover, the reform proposes the possibility of moving child-related benefits out of the tax code to a dedicated agency. This shift would allow for more specialized management of these benefits, potentially leading to more effective and targeted support for families. It reflects an effort to improve the efficiency and effectiveness of social benefit programs by ensuring they are managed by entities best equipped to address specific needs.

Remove tax barriers from personal saving

The eighth point of the fiscal reform focuses on removing tax barriers to personal saving. This proposal includes the introduction of universal savings accounts, which are designed to encourage saving among individuals by offering tax-neutral

⁵ See the following link for more information: <https://www.libremercado.com/2022-02-07/estonia-impuesto-minimo-sociedades-ocde-g7-ue-irlanda-empresas-6862135/>

treatment for savings. The idea is to simplify and make saving more accessible, irrespective of the purpose of the savings, promoting financial security and independence among the populace.

This reform aims to incentivize personal saving by reducing the tax implications associated with it. The introduction of universal savings accounts would allow individuals to save and invest their money without the concern of immediate tax liabilities, thereby encouraging more people to build a financial cushion, which can be beneficial for both individual financial stability and the broader economy.

Similar measures have been implemented in the United Kingdom and Canada. In the UK, Individual Savings Accounts (ISAs) allow for after-tax earnings to be deposited, with subsequent earnings and qualified withdrawals being tax-free. This system encourages saving across various income groups and ages, offering flexibility and widespread popularity. Similarly, Canada introduced Tax-Free Savings Accounts (TFSA) in 2009 to complement its existing retirement savings system. TFSA permit after-tax contributions with the advantage of carrying forward unused portions of annual limits, fostering savings for various life stages and purposes.

Clean up the structure of the individual income tax code

The ninth point of the fiscal reform focuses on cleaning up the structure of the individual income tax code. This entails reducing the number of marginal tax brackets and lowering the overall rates, aiming to make the tax system simpler and more efficient. The goal is to reduce the tax burden on individuals, thereby increasing disposable income and stimulating economic activity.

In addition to lowering rates, the reform proposes broadening the tax base. This would involve reducing or eliminating certain tax deductions, exemptions, and credits, which can often complicate the tax code and create inequalities. The intention is to streamline the tax system, making it more equitable and easier to navigate for taxpayers. This approach seeks to balance the need for sufficient revenue generation with the desire for a more efficient and fair tax system.

The impact of inflation and the tax system

The final point of the fiscal reform focuses on addressing inflation and its impact on fiscal systems. Currently, there is a global concern regarding rising inflation rates, which affects various aspects of the economy, including public finances and fiscal policies. High inflation can distort economic decisions and reduce the effectiveness of fiscal measures. It poses challenges to maintaining a stable and competitive fiscal environment, as it can erode the real value of money and lead to unpredictability in the market.

Regarding the impact of progressive taxation in times of high inflation, such tax systems can unintentionally exacerbate the tax burden on individuals and businesses. As inflation pushes incomes into higher tax brackets, taxpayers may find themselves paying a larger proportion of their income in taxes, even if their real purchasing power hasn't increased. This can hinder economic competitiveness by reducing disposable income and discouraging investment. In the context of the current global inflationary trend, it's crucial for fiscal policies to consider these effects and adjust accordingly to maintain a fair and competitive tax system.

Additionally, the reform underlines the importance of implementing an automatic indexation of fiscal elements in accordance with inflation rates. This approach would ensure that elements like tax brackets, exemptions, and credits are adjusted regularly to reflect changes in the cost of living, thereby preventing the inadvertent increase in tax burdens due to inflation. In the context of income tax, it's noteworthy that a significant portion of European Union countries, approximately 68%, currently use discretionary rather than automatic adjustments. This discretionary approach can lead to delays in responding to inflationary changes and may result in fiscal drag, where taxpayers end up paying a higher percentage of their income in taxes without a real increase in their economic well-being. An automated system would provide a more consistent and fair approach, adjusting fiscal elements in real-time with inflationary trends, ensuring that the tax system remains equitable and does not inadvertently penalize taxpayers due to inflationary pressures.

Table 14.

Indexation policies in OECD Member States.

Country	Personal income taxes	Social security contributions	Cash benefits	Timing
Austria	Discretionary	Discretionary	Discretionary	Discretionary
Belgium	Automatic	Automatic	Automatic	Mix
Czech Republic	Discretionary	Automatic	Discretionary	Annual for SSCs
Denmark	Automatic	Not applicable	Automatic	Annual
Estonia	Discretionary	Automatic	Discretionary	Annual for SSCs
Finland	Discretionary	Discretionary	Automatic	Annual
France	Discretionary	Automatic	Automatic	Annual
Germany	Discretionary	Discretionary	Discretionary	Discretionary
Greece	Discretionary	Automatic	Discretionary	Annual for SSCs
Hungary	Discretionary	Discretionary	Discretionary	Discretionary
Ireland	Discretionary	Discretionary	Discretionary	Annual
Italy	Discretionary	Automatic	Discretionary	Annual
Latvia	Discretionary	Discretionary	Discretionary	Annual
Lithuania	Automatic	Automatic	Automatic	Annual
Luxembourg	Discretionary	Automatic	Automatic	Biannual if > 2.5%
Netherlands	Automatic	Automatic	Automatic	Annual
Poland	Discretionary	Automatic	Discretionary	Annual for SSCs; every three years for family benefit
Portugal	Discretionary	Discretionary	Automatic	Annual
Slovak Republic	Automatic	Automatic	Automatic	Annual
Slovenia	Automatic	Automatic	Automatic	Annual
Spain	Discretionary	Discretionary	Discretionary	Discretionary
Sweden	Automatic	Automatic	Automatic	Annual

Source: OECD.

Table 15.

Indexation policies in OECD Member States, summary table.

	Personal income	Social contributions	Benefits
Automatic indexation	31.82%	59.09%	50.00%
Discretionary adjustment	68.18%	36.36%	50.00%
Not applicable	0.00%	4.55%	0.00%

Source: OECD.

FINAL COMMENTS

The European Union Fiscal Competitiveness Index (EUTCI) underscores the paramount importance of effective fiscal policies in shaping a nation's economic competitiveness. The index reveals that countries achieving high fiscal competitiveness often do so without necessarily reducing public revenue collection. This balance between efficient tax structures and robust public finances is crucial, demonstrating that sustainable enhancements in fiscal competitiveness benefit economies in the long run.

The leaders in the EUTCI, such as Estonia and Latvia, exemplify best practices in various fiscal areas. These countries have successfully implemented tax systems that are not only efficient but also transparent and simple. This simplicity reduces opportunities for tax evasion and corruption, thereby fostering greater trust in government institutions. The lower tax rates and straightforward fiscal policies in these nations have proven to be conducive to business, enhancing economic competitiveness. Estonia and Latvia's success stories highlight the positive correlation between fiscal competitiveness and lower perceptions of corruption, suggesting a compelling link between the efficiency of tax systems and the integrity of governance.

Furthermore, these leading countries demonstrate that it is possible to have a competitive fiscal environment while

maintaining a clear progressive tax system. By avoiding complex tax brackets and maintaining transparent policies, they ensure a fair distribution of the tax burden, supporting economic development and attracting foreign investment. This strategic approach to taxation, combining equity with economic pragmatism, not only enhances fiscal competitiveness but also contributes to overall economic stability and growth. The cases of Estonia and Latvia in the EUTCI serve as exemplars for other countries seeking to improve their fiscal competitiveness in a balanced and sustainable manner.

Europe's need to improve fiscal competitiveness is driven by the dynamic and increasingly competitive global economic landscape. Enhancing fiscal competitiveness is crucial for attracting investment, fostering innovation, and stimulating economic growth. Competitive tax systems play a significant role in creating an environment conducive to business development and entrepreneurship. Furthermore, in the context of global challenges such as technological advancements and shifting trade dynamics, Europe needs to adapt its fiscal policies to remain attractive to both domestic and foreign investors. This includes not only ensuring reasonable tax rates but also simplifying the tax code to reduce administrative burdens and improve efficiency.



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