

THE IMPORTANCE OF VALUE-ADDED TAX HARMONIZATION IN THE EUROPEAN UNION SINGLE MARKET

Simeana Beshi *, Bedri Peci **

* Faculty of Law, University "Ukshin Hoti" Prizren, Prizren, the Republic of Kosovo

** *Corresponding author*, Department of Financial Law, Faculty of Law, University of Prishtina "Hasan Prishtina", Prishtina, the Republic of Kosovo

Contact details: University of Prishtina "Hasan Prishtina", Str. "Agim Ramadani", Nn. 10000 Prishtina, the Republic of Kosovo



Abstract

How to cite this paper: Beshi, S., & Peci, B. (2023). The importance of value-added tax harmonization in the European Union single market. *Corporate & Business Strategy Review*, 4(1), 142–157.
<https://doi.org/10.22495/cbsrv4i1art13>

Copyright © 2023 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).
<https://creativecommons.org/licenses/by/4.0/>

ISSN Online: 2708-4965

ISSN Print: 2708-9924

Received: 09.09.2022

Accepted: 16.02.2023

JEL Classification: H2, K2, K3

DOI: 10.22495/cbsrv4i1art13

The research focuses on the impact of value-added tax (VAT) harmonization as necessary to ensure the establishment and functioning of the single market. The aim is to show the legal basis and national actions taken by the nations to fulfill the Directives' requirement for harmonization as a precondition for promoting the single market. This paper also examines Member States' (MS) ongoing efforts to harmonize national tax systems because of fiscal sovereignty to choose its own VAT structure which prevents complete harmonization and the European Court of Justice (ECJ) interpretation approach to VAT. An example of a harmonized tax inside the European Union (EU) is VAT. The development and effectiveness of a single market is the EU's top priority. To realize the goal of creating a single market, all barriers to the free movement of people, capital, goods, and services between the MS must be eliminated (Kollmann, 2019). To fulfill the research aims, the histogram methodology and several statistical analyses were utilized to summarize data and hypothesis testing. The findings underline that, from the MS's viewpoint, the EU VAT is primarily a significant source of revenue. From the viewpoint of the EU, a harmonized VAT should be seen as a fundamental part of the single market. The research is of particular relevance to researchers, tax practitioners, VAT policy designers, etc. The VAT harmonization process and challenges in the EU are an excellent platform for analyzing the views of science, doctrine, and practice on this issue. This research will enable further research into the strategy and challenges of VAT harmonization.

Keywords: Harmonization, *Acquis Communautaire*, Single Market, Fundamental Freedoms, ECJ

Authors' individual contribution: Conceptualization — S.B. and B.P.; Methodology — S.B. and B.P.; Validation — S.B. and B.P.; Formal Analysis — S.B. and B.P.; Investigation — S.B. and B.P.; Resources — S.B. and B.P.; Data Curation — S.B. and B.P.; Writing — Original Draft — S.B. and B.P.; Writing — Review & Editing — S.B. and B.P.; Visualization — S.B. and B.P.; Supervision — S.B. and B.P.; Project Administration — S.B. and B.P.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

We must remember that there are 27 diverse value-added tax (VAT) systems in the European Union (EU). There are several reduced or super-reduced VAT rates and exemptions on various products and services, in addition to the various standard VAT rates amongst Member States (MS), which may be justified by various national fiscal systems. This complexity contributes to transparency, administrative costs, errors, and possible fraud. The EU's VAT system, which generates nearly €1 trillion annually and contributes about a fifth of total tax revenue, is a significant source of income (Chastel, 2022).

Turnover taxes, particularly VAT, have been essential to the integration progress of the EU from the very beginning. The harmonization of these taxes was seen as *conditio sine qua non* for a single market.

The historical objective of promoting complete economic integration of the MS was initially achieved by creating a "single market", and since 1993, an "internal market" without "internal" boundaries. This resulted in the adoption of a common EU VAT system and ongoing harmonization of it. The Delors Commission published a White Paper in 1985, which led directly to the approval of the Single European Act. The legislative measures for completing the single market through the process of harmonizing EU tax law are laid out in both papers (Delors, 1989).

The Single European Act's (EU, 1987) ability to complete the "internal market", was its most important accomplishment.

Why is VAT harmonization necessary for the integration of Europe, and how does VAT harmonization impact the creation of an internal market? As stated by Uhl (2006), indirect taxes, such as VAT, have an impact on the fiscal revenues, social programs, and internal market activities of the Member States.

The European Union functions as a single market that promotes unrestricted free trade in goods, services, capital, and people. These four main principles of the EU must serve as a guide for the harmonization of taxation systems.

This research demonstrates how the harmonization of VAT, where restrictions to free movement have largely been eliminated, has allowed the single market to be characterized as a successful example of EU integration. This can be done to a significant extent and is justified by the findings of this study. Nonetheless, the findings of the research indicate that several barriers continue to exist in the form of rules, requirements, and administrative processes imposed by Member States.

The primary objective of the indirect taxes harmonization throughout the MS of the EU was to realize the goal of achieving a neutral tax within the framework of internal commerce (Dobrowolska, 2008).

However, anybody who thinks that this harmonized VAT system genuinely results in equivalent VAT laws and procedures for each EU member nation is operating under a false understanding. The tax rates as well as a number of significant exemptions are not harmonized, the reverse-charge process, country-specific invoicing criteria, and VAT declaration report standards are three important instances of exemption regulations

that are not completely harmonized internationally because of the fiscal sovereignty of the Member States to design national tax system.

The VAT Directive 2006/112/EC adopted by the EU gives individual nations the authority to choose how to interpret certain VAT-related problems. These exemptions, in particular, are what contribute due to how complicated the VAT law is in the EU (van den Biggelaar et al., 2008).

The First Council Directive (EU, 1967a) and the Second Council Directive (EU, 1967b), which established VAT in the European legislative framework, marked the beginning of the new, universal framework of turnover taxation that would ultimately take the place of cascading taxes in the MS. It is currently impossible to predict how and when the harmonization of turnover taxes would accomplish the goal of doing away with the imposition of tax on importation and the remission of tax on exportation in commerce between Member States, according to the First Directive's Preamble (de la Feria, 2009a).

The Second Directive (EU, 1967b) on the harmonization of turnover taxes, in accordance with Article 17, concentrated on the structure and implementation processes for the unified VAT system.

If national MS' courts are unsure of how to interpret provisions of the VAT Directive 2006/112/EC that they must implement into their national law, the European Court of Justice (ECJ) may provide assistance on the proper interpretation (Kollmann, 2019).

While interpreting Article 33 of the Sixth Directive of VAT, the Court made it clear that Member States' authority to implement indirect taxes was also subject to "other" community regulations, according to the authors (Farmer & Lyal, 1995). This "other" law specifics were likewise hazy. Was there any way that the prohibition on turnover taxes was impacted by this wide restriction? How, in such case? It was left to the Court to provide explanations on all aspects of the prohibitive rule due to the absence of guidance, including the rule's nature, its function within the common VAT system, and the definition of turnover taxes, which established the rule's scope.

The ECJ's preliminary judgments on the concept of "turnover taxes" marked the beginning of its efforts toward a uniform approach to this limitation. Legal challenges against the legality of various domestic taxes were filed in national courts in accordance with Article 33 of the Sixth Directive, and these rulings were issued in response. It is important to note that the treaties deny of the ECJ's authority to determine whether a national tax conforms with *acquis communautaire*. Despite the ECJ's role in interpreting the VAT directives' provisions in the function of the special characteristics of taxes in national legislation provided by the national court (Lenaerts et al., 2015).

In its first decision, C-295/84 Wilmot, the Court evaluated whether the then-applicable Article 33 of the Sixth Directive — now known as Article 401 Recast VAT Directive — prevented the maintenance of a French solidarity tax and a mutual aid fee that applied to commercial firms (Case 295/84, EU, 1985).

The Court, therefore, adopted a teleological interpretation of Article 33, contending that it should be interpreted in the context of the objectives attained through the process of harmonizing turnover taxes. Following the completion of this

procedure, the unified VAT system was created with the goal of eliminating cumulative multistage turnover taxes (Maris, 2017).

Despite the fact that the nations have made efforts toward harmonization, we have come to the conclusion that we are unable to assert that a singular tax system has been developed. This is the case even though the common market has been established. This is because every state retains the right, as part of its financial sovereignty, to construct its own national tax system, taking into account the socioeconomic and geopolitical elements that are specific to that state.

This study may contribute to bridging the gap through a study of the impact of tax revenues by tax rates and a claim for the tax sovereignty of MS on the VAT harmonisation and the functioning of the single market.

The main objective of the study is to treat and determine the continuous efforts of the MS to harmonize the national tax legislation with the *acquis communautaire* of the EU.

The contribution of the study is to fill the gap in the theoretical and empirical research concerning the challenges that affect the importance of VAT harmonisation in the functioning of the single market. This research may also contribute as a source of information for the scientific community about the significance of tax harmonization as a *conditio sine qua non* for the single market.

The remainder of this paper is structured as follows. Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 analyses the methodology that has been used to conduct the research and summarizes the proposed legal framework. The results are presented in Section 4, which focuses on the data analysis of tax rates of MS and VAT as the main source of revenue, non-unified tax rates of member nations due to their fiscal sovereignty, and the functioning of a single market. In Section 5, we discuss the findings. The research conclusion, recommendations for future research, and limitations of the study are all presented in Section 6.

2. LITERATURE REVIEW

The EU recovery process will depend heavily on sustainable revenues, a healthy business environment, smooth legitimate trade, and a fair, safe, and stable single market.

In 1970, the Council determined that the community would be supported by its own resources and that a portion of the VAT collected in each MS would be included in the EU's own finances (EU, 1970).

The VAT and gross national income (GNI) resources are levied by each MS and are commonly seen as national contributions to the EU budget rather than resources "owned" by the EU (Fuest & Pisani-Ferry, 2020).

VAT, in addition to being a significant source of income for EU Member States, is also one of the EU's own resources, accounting for around 10–11% of the EU budget in recent years. However, the role of the VAT-based own resource has shifted significantly between the 1980s and 1990s. VAT-based internal resources contributed to two-thirds of all EU income in 1986, the year with the largest proportion (Binder, 2021).

The latest EU VAT reform on e-commerce in 2020 benefits governments, consumers, and businesses. Is the e-commerce VAT system more simple, transparent, predictable, fair, and equal? The early data indicate that the answer is "yes". From July to December 2021, MS collected around €1.9 billion in VAT revenues. This equates to €3.8 billion each year. The total includes €690 million in additional income for shipments worth less than €22. So yet, available statistics only cover one aspect of the new rules: imported online shopping shipments worth less than €150 (Bray, 2022).

Today, VAT is a stable source of revenue and a key factor in determining how effectively taxes are collected. E-commerce, with its consistent growth trends (EU-28), based on the digital single market, which promotes e-commerce for individuals, has begun to occupy a special place in the structure of trade turnover over the course of the most recent reporting periods (Abramova et al., 2021).

Tax rates have an effect on both the amount of tax revenue collected and economic activity (Mach, 2018).

It is needed to define what exactly is meant by the phrase "tax harmonization" in order to determine how far it has advanced.

"Tax harmonization is the process of reducing impediments and differences between the tax systems of various countries involved in the European Union", claims Lyons (1996, p. 215).

Another definition of the concept is, "Harmonization should be understood as a process of aligning the national budgeting system to shared economic objectives" (Musgrave, 1967, pp. 219–220).

According to Article 93, the Member States' turnover taxes should be harmonized to the level required to enable the development and functioning of the single market and to avoid competitive distortions (EU, 2002).

The single market is regulated by Treaty on the Functioning of the European Union's (TFEU) Articles 4(2)(a), 26, 27, 114, and 115.

According to the European Commission (1985), the harmonization of indirect taxes has long been seen as a necessary and essential component of establishing a real single market.

The EU Parliament may take measures to harmonize the national law of Member States in accordance with TFEU Article 114, with a focus on establishing and maintaining a single market (Dahlberg et al., 2020).

Because of their nature, areas that have undergone extensive harmonization are often ones that have historically been seen as being more important to the creation and operation of the single market, as is the case with VAT (de la Feria, 2009b).

An example of a harmonized tax inside the EU is the VAT. This effect will come about as a direct result of the formation of a single market, one of the most significant goals of the EU. To achieve the goal of creating a single market, all barriers preventing the free movement of goods, people, capital, and services between the MS must be abolished (Kollmann, 2019).

According to Czyzewski et al. (2019), Dzwigol and Dzwigol-Barosz (2020), and Saługa et al. (2020), the status of the market for the consumption of goods and services has a crucial influence on the VAT mobilization in the countries of the EU.

The European Court of Justice has repeatedly emphasized that even in the absence of general harmonization, national legislation implementing the Directive must be interpreted consistently and in conformity with EU law (Case 327/82, EU, 1984).

From the standpoint of the MS, the EU VAT is first and mainly a significant revenue source and, as such, a unique success story. When seen from the standpoint of the EU, a common VAT should be considered as being an essential part of the common market (Cornielje, 2022).

Regarding the required level of VAT harmonization, a close level of "approximation" was necessary. This approximation needs to be sufficiently near that trade distortions, trade diversion, and impacts on competition do not affect the functioning of the single market (European Commission, 1985).

It is desirable to continue working toward harmonization of the disparate legislation relating to turnover taxes since the continuation of the diversity of tax systems now in use in the various MS is detrimental to the efficient operation of the single market (Thurston, 1963).

The EU's Member States have not yet been able to come to an agreement on a uniform set of regulations for a unified EU tax base, rates, and deductions (European Commission, 2010b).

The majority of tax-related matters are instead agreed upon and handled individually by individual member states as they do not come within the EU's shared competencies (Fragoso, 2020).

More than 500 million EU individuals likely have to pay the VAT every day since it is already in place in 28 EU Member States. The EU VAT system, on the other hand, seems to be fragmented into a large number of distinct national legal systems, which creates a barrier to efficient intra-EU commerce and the creation of a single market (European Commission, 2010a).

Harmonization has not yet been fully achieved since Member States may have different exclusions, standard rates, and reduced rates (European Commission, 2010a).

In order to further eliminate competition distortions and facilitate the free movement of goods and services within the single market, it was subtly reiterated that the VAT system's implementation was seen as the beginning of a dynamic process of harmonizing indirect taxes that would be continued in the future (de la Feria, 2009b).

The unified European VAT system was created in such a manner because of the extraordinarily convoluted structure that comes from the member nations' tax sovereignty.

RQ: Does the harmonization of the VAT have an impact on the level of tax revenue as well as how the single market functions?

From the abovementioned, the following hypotheses are formed:

H1: Value-added tax (VAT) is a significant financial source to national governments, the EU budget, and other consumption taxes.

Tax revenue levels are influenced by tax rates. The intention of tax harmonization is to prevent the single market's ability to function as an open space free of internal boundaries from being hampered by different national tax systems.

Harmonizing turnover taxes was necessary in the interest of the single market which guarantees the free movement of goods, services, capital and individuals. As a result, tax harmonization continues to be *conditio sine qua non* for the single market to function.

H2: The design of the tax system remains the competence of the Member States' fiscal sovereignty.

However, despite the application of the internal market, relatively extensive harmonization has occurred in the field of VAT.

3. METHODOLOGY

This research will be written using a histogram methodology and several statistical analyses were utilized to summarize data and hypothesis testing. This approach will represent the two-stage examination of the topic with the assistance of extra research methods. Regarding the first goal, which is to analyze, describe, and explain the material, the European VAT directives (EU, 2006) and the ECJ's case law will be analyzed. The basis for the analysis of the issue under study is the historical development and positive norms. In certain cases, the descriptive approach will be used to analyze the text. The purpose of the legislation and its particular requirements continue to be crucial factors. When the legislation, the VAT directives, or other bylaws are ambiguous, we shall utilize interpretation methods such as historical, systematic, grammatical, and teleological procedures to determine the proper answers (Bydlinski, 2011).

According to Bengoetxea et al. (2001), in most cases, the ECJ adheres to the standards of interpretation that are universally recognized (Weiler, 1987).

This illustrates that the ideas of EU law need to be developed beginning with the common meaning of the words in their context and in the light of the goals of EU law. As a result, the interpretation of EU legislation makes use of all the standard approaches to legal interpretation (Kollmann, 2019).

The legislation's language, and hence the meaning of the words themselves and their meaning in relation to other terms, is often the basis for the literal, grammatical interpretation. While grammatical interpretation is always the initial step in determining a clause's meaning, it often leads to a variety of interpretational outcomes. These versions may vary somewhat, especially as the EU VAT law is available in several languages. A clear reading may not be attainable in any instance, even if each language version is legally binding and none takes precedence over the others (Birkenfeld, 2003).

As a consequence, systematic and teleological interpretations will be used in order to arrive at a conclusion.

The systematic method relies on the context of the relevant provision, therefore the interpretation result that best fulfills the treaty's other provisions will be used. The ECJ supports the ability of EU law to operate as a legal system by treating its case law as a single, cohesive system and developing broad EU law principles (Szudoczky, 2014). This strategy demonstrates the need for a methodical interpretation method since the ECJ consistently connects its conclusions to earlier case law.

The teleological method seeks to determine the purpose of the regulation, which may be, for example, the purpose of taxing consumer expenditure in accordance with the European VAT Directive. Due to its contribution to the consistency and coherence of the law, it dominates the case law of the ECJ (Maduro, 2007).

However, historical sources may also be employed to ascertain the legislator's intentions since they are sometimes used to support subsequent legal arguments (Fenelly, 1996; Maduro, 2007).

Finally, it is crucial to remember that EU legislation is a separate set of regulations. The ECJ repeatedly emphasizes that no references to national legal systems are permitted, particularly with regard to the VAT Directive. Such reference would go against the VAT Directive's uniform implementation throughout all EU Member States.

Application of an exploratory method on the impact of digital reporting requirements on VAT income will be used to put into practice some of the ideas that were taken from the source material.

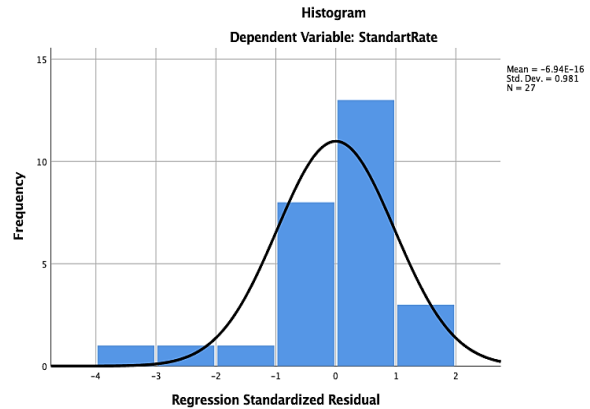
Because some forms of transactions in e-commerce have received so little attention from tax law research, an exploring approach is required.

The secondary data is the result of a review and analysis of literature specifically related to VAT harmonization and the single market. The most relevant information was gathered from a variety of official EU sources, journal publications, reports, legislation, etc.

In all Member States, VAT is the major factor interfering with the implicit tax rate on consumption. In addition, the histogram was used in the verification process of the hypotheses (Figure 1). A histogram shows how frequently a value falls into a particular bin. The height of each bar represents

the number of values in the data set that fall within the particular bin. The height of the bar shows how many data values are in that group.

Figure 1. The dependent variable of VAT standard rate applied in EU countries

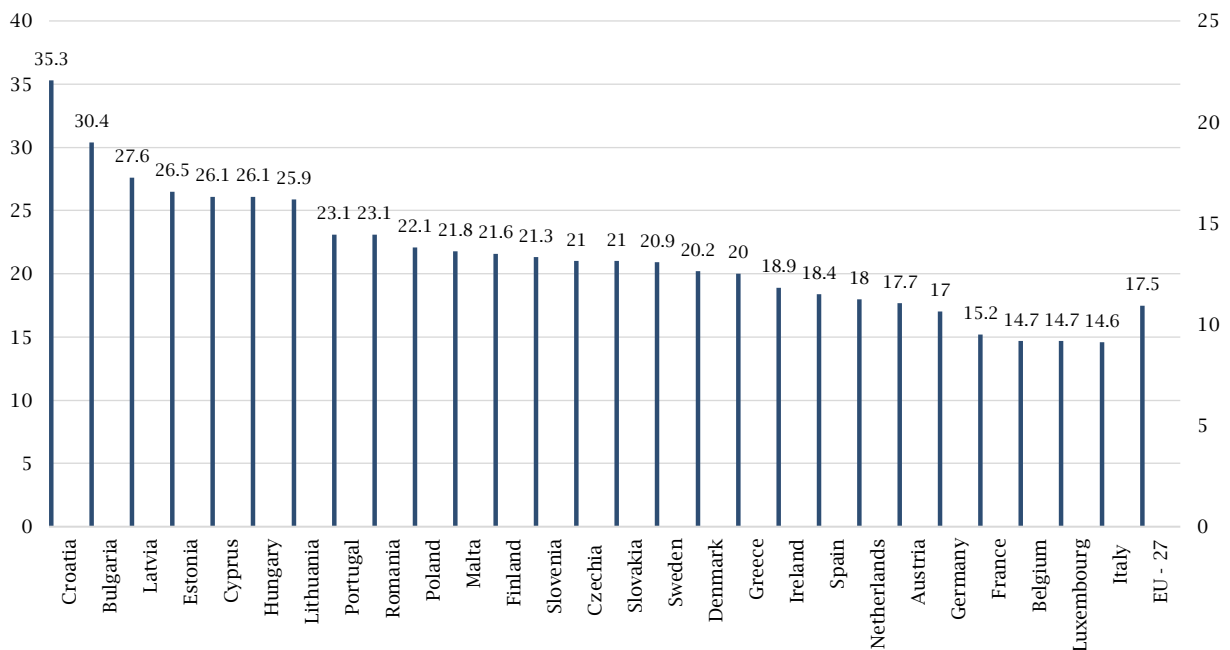


This study also confirmed the data adequacy for testing the hypotheses through figures and tables presented in the results section.

4. RESULTS

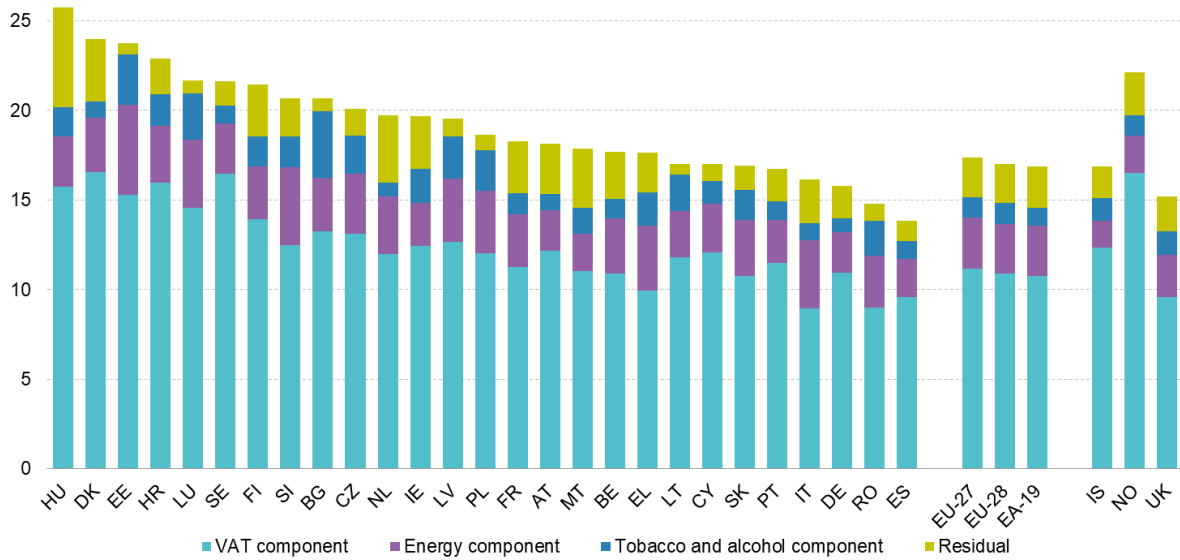
VAT revenue is one of the most significant sources of governmental income, as seen in Figure 2. They generate around 21% of the EU-27's overall tax income, with certain nations, like Croatia and Bulgaria, earning almost a third of their tax revenue via VAT (Binder, 2021).

Figure 2. Share of VAT in total tax revenues in EU Member States in 2019 (%)



Source: Eurostat (n.d.).

Figure 3. Decomposition of the implicit tax rate on consumption, 2019

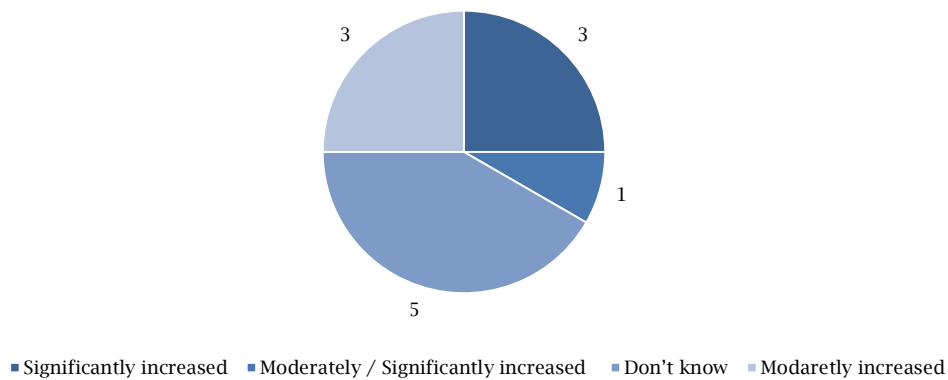


Source: European Commission (2021a).

In most cases, VAT constitutes between two-thirds and three-quarters of the total amount of the implicit tax rate (ITR) imposed on consumption (Figure 3). The VAT contributes more than 75% of the total revenue collected in Sweden. This percentage is the highest in the EU and compares to around 55% in both Greece and Italy. However, components that are not subject to VAT are equally crucial. The ITR on consumption makes up about 16.6% of the total tax burden in the EU-27 when energy taxes are taken into account. The majority of

these are made up of excise charges on various types of mineral oils. These levies make up a significant portion of the ITR on consumption for the countries of Italy, Estonia, and Slovenia; yet, they have the smallest impact on that indicator for the countries of Hungary, Malta, and Ireland. On average across the EU, taxes placed on tobacco products and alcoholic beverages make up about 6.5% of the ITR (European Commission, 2021a). Yet, the VAT is the primary factor contributing to the implicit tax rate on consumption in every Member State.

Figure 4. Impact of digital reporting requirements on VAT revenue: Views from tax authorities



Source: European Commission (2022).

The majority of Member States argued that digital reporting requirements (DRRs) lead to an increase in VAT collection by improving tax control and deterring voluntary compliance (Figure 4). Nonetheless, more than one-third of respondents preferred not to express a firm position on the impact on VAT revenue, owing to the timing of the introduction of reporting requirements (too early in some countries, but also too distant in Bulgaria or Latvia), as well as the fact that recent trends have been significantly influenced by

the COVID-19 pandemic. Furthermore, in certain countries, such as Poland, providing such an evaluation is very difficult since the DRR is part of a broader anti-fraud package, making it impossible to distinguish the unique role performed just by the former (European Commission, 2022).

Even though the EU has legislation defining tax harmonization via treaties and directives, the EU Member States have yet to agree on a set of rules for a unified EU tax base, rates, and deductions. Most tax-related decisions and actions are taken and

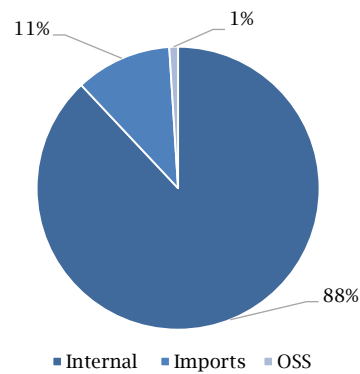
handled individually by member states and do not come within the EU's common competencies. However, governments have the power to include VAT exclusions in directives. Every EU member state is liable for setting its own rates.

Articles 97 and 98 of Directive 2006/112 of the European Council (EU, 2006) only stipulate a minimum rate of 15%. This suggests that the rates of VAT vary across the country. Currently, European Union MS utilize set rates that vary from 15% to 27%. They may also apply one or more VAT reduction rates, as well as a minimum of 5%.

Finally, certain Member States continue to use special VAT rates, which they were authorized to use temporarily provided they were in existence on January 1, 1991. These special VAT rates are as follows: super-reduced rates of less than 5%; zero rates; and parking rates of at least 12%, i.e., reduced rates on specific goods and services not included in Annex III to the VAT Directive (Binder, 2021).

The majority of the internal VAT, or the value of the products and services provided to consumers, is collected by customers, or about 87.8%. VAT collected on imported products from third countries is the second biggest source or about 11.0%. VAT from the VAT One Stop Shop (OSS) programs is the third source or about 1.2% (Figure 5) (Dineen et al., 2022).

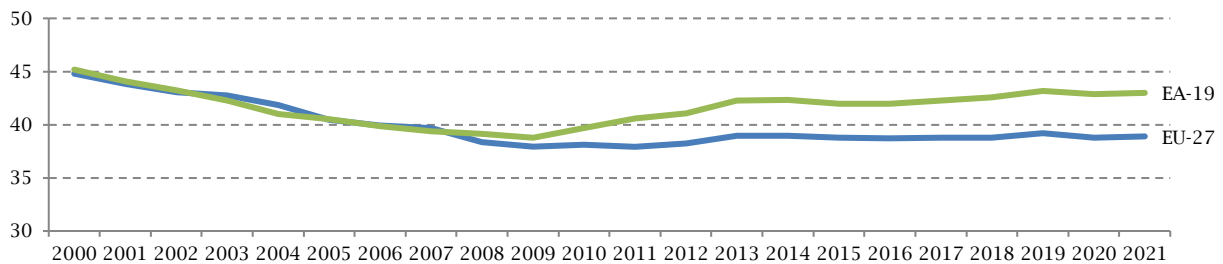
Figure 5. VAT collection from consumers, imported products, and OSS



Source: Dineen et al. (2022).

After an increased period that lasted from 2009 to 2013, the EU-27's average standard VAT rate eventually reached its current level of 21.5%, where it stayed unaltered from 2017 to 2021 (Figure 6). At the beginning of 2021, the average standard VAT rate across all 27 EU Member States was 21.5%; this rate has not changed since 2017.

Figure 6. Development of average standard VAT rate, EU-27, 2000-2021



Source: European Commission. (2021a).

In order to make a comparison of these three aspects in each member state, we have combined the calculation of the standard rates, the GDP contribution of VAT, and the total revenues from VAT in nominal terms (see Figure A.1). You can find this comparison in Appendix. The derived figure is from Table A.1 and Table A.2 for the year 2020 for all of the EU nations other than Iceland and Norway. According to the data shown, Croatia and Bulgaria

have the largest proportion of their total revenue coming from VAT, whilst Belgium, Italy, and Luxembourg have the lowest percentage.

Table 1 shows the VAT rates applied in EU MS. Malta (18%) and Luxembourg (17%) have the lowest average rates. Contrarily, Hungary has the highest VAT rate at 27%, followed by Croatia, Denmark, and Sweden (all at 25%).

Table 1. VAT rates apply in Europe in 2022 (Part 1)

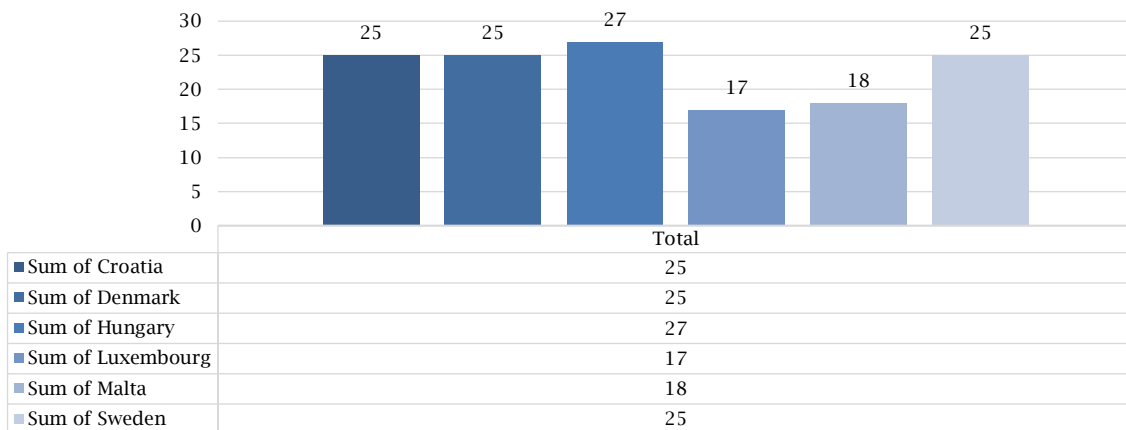
Country code	Member State	Reduced rate	Super reduced rate	Parking rate	Standard rate
AT	Austria	10/13	-	13	20
BE	Belgium	6/12	-	12	21
BG	Bulgaria	9	-	-	20
CY	Cyprus	5/9	-	-	19
CZ	Czech Republic	10/15	-	-	21
DE	Germany	7	-	-	19
DK	Denmark	-	-	-	25
EE	Estonia	9	-	-	20
EL	Greece	6/13	-	-	24
ES	Spain	10	4	-	21
FI	Finland	10/14	-	-	24
FR	France	5.5/10	2.1	-	20
HR	Croatia	5/13	-	-	25
HU	Hungary	5/18	-	-	27

Table 1. VAT rates apply in Europe in 2022 (Part 2)

Country code	Member State	Reduced rate	Super reduced rate	Parking rate	Standard rate
IE	Ireland	9/13.5	4.8	13.5	23
IT	Italy	5/10	4	-	22
LT	Lithuania	5/9	-	-	21
LU	Luxembourg	8	3	14	17
LV	Latvia	12/5	-	-	21
MT	Malta	5/7	-	-	18
NL	Netherlands	9	-	-	21
PL	Poland	5/8	-	-	23
PT	Portugal	6/13	-	13	23
RO	Romania	5/9	-	-	19
SE	Sweden	6/12	-	-	25
SI	Slovenia	5/9.5	-	-	22
SK	Slovakia	10	-	-	20

Source: YourEurope (2022).

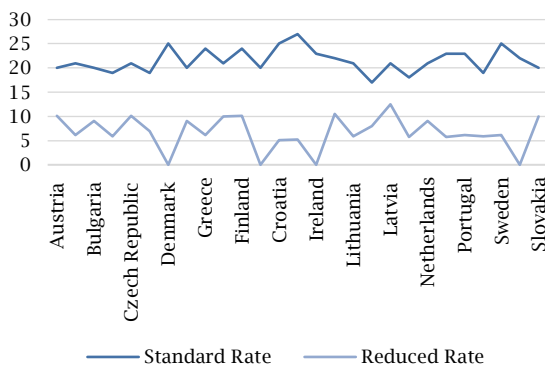
Figure 7. The lowest and highest standard rates (%) in EU Member States, 2022



Source: Authors' elaboration based on data processed in Table 1.

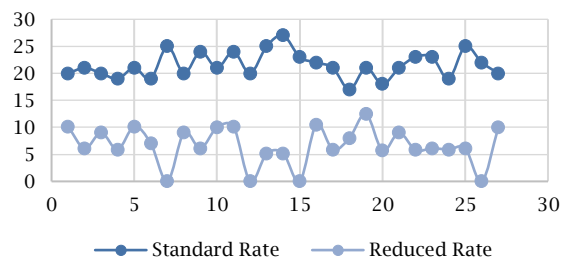
The Sixth Directive of VAT requires that a minimum standard rate of 15% be used throughout all of the states. Table 1 shows that the standard VAT rates in Malta (18%) and Luxembourg (17%) are both lower than the average rate for the globe. Currently, there are four countries – Sweden, Hungary, Croatia, and Denmark – that have standard VAT rates that vary from 25% to 27%, making the average standard rate 20.7%. Contrary to appearances, certain goods and services are exempt from the standard rate of VAT. On the other hand, some are free from VAT or are subject to zero or reduced rates (European Commission, 2021b).

Figure 8. VAT rates in EU Member States, 2022



Source: Authors' elaboration based on data processed in Table 1.

Figure 9. The standard and reduced rates in EU countries, 2022



Source: Authors' elaboration based on data processed in Table 1.

According to Table 1 and Figures A.1, 8, and 9, all of the member states have balanced tax rates and tax revenues. Based on this data, Member States implement standard rates and reduced rates of VAT that are harmonized with the Sixth Directive of VAT. As a result of the assertion of state sovereignty over the financial system, the Directive gives states the authority to establish on a national level the minimum and maximum levels of tax rates. This is also the reason why we do not have a unified VAT system; rather, we have a diversity of tax systems.

The Sixth Directive of VAT, which was adopted in 1977, aimed to eliminate obstacles to the free movement of people, goods, services, and capital in order to create an internal market. To this end, it provided detailed definitions for a number of terms,

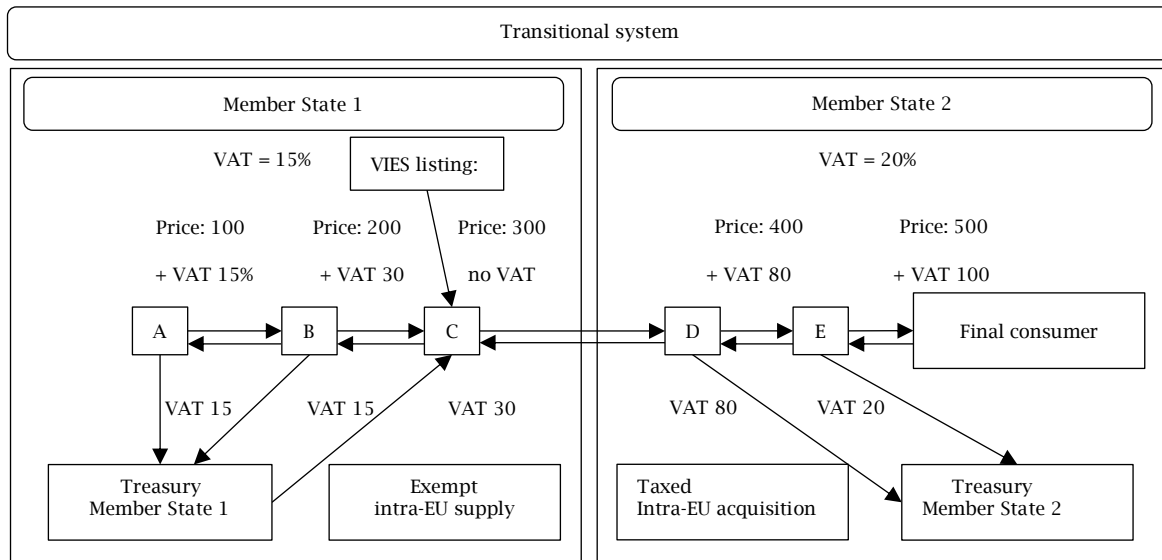
including “taxable transaction”, as well as provisions for potential VAT exemptions (EU, 1977).

Another Council regulation that established a (temporary) transitional VAT system for intra-EU of goods simultaneously removed fiscal barriers at EU internal borders with the foundation of the single market in 1993 (EU, 1991).

Each Member State is in charge of managing, controlling, and collecting its own VAT under this

interim system, just as they were under the previous one (Figure 10). Due to the Member States’ insistence on maintaining their tax-related sovereignty and their inability to come to an agreement on the specifics of a permanent system, this transitional system is still in place today.

Figure 10. Transitional VAT system since 1993



Source: European Commission (2017).

Fiscal frontiers and all associated export/import schemes between the Member States were abolished as of January 1, 1993, and were replaced by a system of exempt supplies in the Member State of origin and taxed “intra-EU acquisitions” (a new taxable event) in the Member State of destination, which mirrored the prior scheme but did not involve customs procedures. A new reporting system called “the VAT Information Exchange System” (VIES) was implemented since the follow-up of the physical movement of the products could no longer be ensured by customs documents (VIES). The Member State of Destination (Member State 2) is informed of the arrival of goods intended for D, a company registered for VAT purposes in Member State 2 and required to declare this intra-EU acquisition in its VAT return, via a system of listings submitted by the supplier in the Member State of Origin (Member State 1) and subsequently sent to Member State 2. Prior supplies (A to B and B to C) and following supplies (D-E) are domestic supplies charged with VAT, just as in the old system. The VAT paid by A on the supply made to B, C, and D, as well as the VAT owed by D on the intra-EU acquisition, are often deductible (as regards C through a refund since there is no output VAT on the supply made by C against which the deductible VAT of 30 can be offset). D will account for the VAT and subtract it from the same VAT return for the intra-EU acquisition, thus the outcome is zero (European Commission, 2017).

The data presented in this section support the suitability and validity of the hypotheses and demonstrate that they have been tested and accepted.

5. DISCUSSION

Based on the literature analysis and debate, VAT harmonization aims to achieve an approximation or coordination of multiple legal provisions or systems by eliminating significant disparities and defining minimal requirements or norms.

The four pillars of market freedom, which aim to promote the free movement of goods, services, people, and capital, form the foundation of the EU harmonization as a precondition for functioning the single market.

One of the most effective instruments for the promotion of European harmonization is found in the Treaty on the Functioning of the European Union’s Article 114, which provides the Community institutions the ability to take measures for the approximation of the rules of the Member States.

The phrase “functioning of the single market” denotes the primary impetus for the EU’s efforts to harmonize their measures and ends (Unver, 2021).

The Council made a legally and politically binding promise in 1967 to implement a VAT system that was adapted to the single market and operated across the Member States in the same manner as it did inside a single nation.

The first move was made towards the harmonization of VAT in the EU in 1967 when the EU Member States approved two directives with the intention of harmonizing their national legislation on turnover taxes. This was the first step towards the eventual harmonization of VAT in the EU.

On the other hand, since these two directives did not include any legal clarity, the structures of VAT that were employed by the Member States remained to be relatively different from one another (Easson, 1993).

The First and Second Directives provided Member States with a significant amount of flexibility and freedom in how they carried out the implementation of the VAT, notably in terms of the use of exclusions and lower rates (Terra & Wattel, 2012).

As a result of the high level of flexibility and the lack of legislative detail, there were a number of legal conflicts that were referred to the ECJ by the national courts. This gave the ECJ the opportunity to begin the process of developing case law in the area of VAT. However, in the end, it was exactly that degree of flexibility as well as the lack of detail that resulted in the Second Directive being replaced by the Sixth Directive (de la Feria, 2009a). Acceptance of the VAT Common Directive (2006) became a condition for EU membership (Cnossen, 2022).

In the titanium dioxide case, the ECJ ruled that harmonizing measures are necessary to deal with disparities between the laws of the Member States in areas where such disparities are liable to create or maintain distorted conditions of competition in order to give effect to the fundamental freedom. Two years later, it seems that the Court's ruling on the Waste Directive has limited the scope of the internal market's competence (Weber, 2010).

The VAT is a significant contributor to national budgets, and in many Member States, it is the primary contributor.

The VAT is included as part of the EU's own resources in its budget, and member states are required to provide a tiny portion of their overall VAT revenues to the EU.

The existing VAT system requires the adoption of a minimum reduced rate of 5% and a minimum standard rate of 15%. These rates are subject to ongoing evaluation and adjustment. Each Member State because of fiscal sovereignty is allowed to choose its own tax rate, which may be at or higher than the required minimum. This minimal standard rate aims to prevent considerable differences in the VAT rates that are used by different Member States. These variations might lead to distortions of competition between countries with high and low rates, which would put the efficient operation of the single market at risk. Furthermore, the application of zero rates, super-reduced rates (rates that are lower than 5%), and reduced rates for products or services that are not typically qualified are subject to a multiplicity of exceptions and derogations. Because of this, the whole system becomes more convoluted and vulnerable to misunderstanding. During the process of consultation, it was brought to our attention that variations in VAT rates led to increased compliance expenses. It would therefore appear to be appropriate to conduct a review of the structure of the VAT rates.

The new VAT rules for e-commerce have resulted in enormous advantages for all member states, and EU residents may look forward to enhanced public income as a consequence of more

VAT payments and reduced VAT fraud as a direct result of these changes.

At the level of the EU, a relatively extensive harmonization has been accomplished in the area of VAT, taking into consideration the fact that individual member states are allowed to design their own tax systems.

To be more specific, tax sovereignty further widens the gap between the member states, particularly between the old Member States and the new Member States, because the old ones have higher tax rates in comparison to the new ones, which have lower tax rates, as shown in Table 1 of the results VAT rates applicable in the Member States.

6. CONCLUSION

In this paper, we have discussed the significance of VAT harmonization as a major source of revenue and analyzed how it affects how the single market operates. From a financial perspective, the key source of income for all Member States is the harmonization of VAT all through the EU.

From the way the data has been presented, we may conclude that a major amount of the EU budget's revenue comes from the VAT that the Member States contribute depending on the harmonized VAT rates they apply.

The effective functioning of the single market is a necessary precondition for the successful operation of the EU. A harmonized system of VAT is an essential component of the successful functioning of the single market. This not only should ensure the free and competitive movement of goods, capital, persons, and services between Member States, in addition, it should make sure VAT revenue, not just for the budgets of the EU members, but also the finances of the EU budget.

Today, we cannot talk about complete harmonization because of the social, economic, and geopolitical characteristics of various states, as well as the claim of fiscal sovereignty that leaves room for states to define their own tax system (tax structure, tax rates, base taxes, exemptions, etc.). The diversity of tax systems used by member states has deepened the differences between them as well as increased inequality. Therefore, in terms of the degree to which obstacles and differences in tax systems and VAT regulations have been eliminated, we are able to claim that we have achieved a relatively extensive level of harmonization in the domain of VAT.

Nevertheless, the European Court of Justice has a significant impact on this debate. Its role is to interpret the provisions of directives in the function of the special characteristics of taxes in the national legislation given by the national court.

The implications of the results of the work lead us to the continuous effort of the states to harmonize the tax system, both from the EU institutions and also from the member states through continuous reforms, as was the case with VAT e-commerce. This effort is being made by both the EU institutions and also by the member states. This continuation for VAT harmonization is due to the fact that harmonization continues to be

a necessary condition for the operation of the European market. This is accomplished through the promotion of fundamental freedoms and the development of a single market free of barriers.

The current research recommended that there is a need to place greater emphasis on digitalization and sustainability in order to level the playing field for all EU member states and provide them with more leeway and discretion regarding the use of reduced and zero tariffs. In order to bring about more parity across the Member States, it is imperative that the list of products and services that are eligible for a lower rate of VAT be expanded.

Reduced taxes on products and services should be implemented as an incentive for increased consumption and use of those that contribute to the accomplishment of environmental or sustainability objectives. On the other hand, taxes on products and services that are detrimental to the environment and

do not contribute to the achievement of these objectives should not be decreased. The same standard must be implemented for goods that are regarded as hazardous to the health of consumers.

The path that future research, particularly empirical research, may take might go in a variety of interesting ways. In the first place, there is a need for empirical research on the effects of various VAT regimes on the EU single market and foreign trade. There are a number of hypotheses that attempt to explain why different VAT regimes cause distortions in commercial activity; however, at this moment there is little empirical evidence to support these assertions. Last but not least, in the course of future study, new quantitative methods should be developed for the purpose of assessing the benefits and costs of reduced VAT rates and other fiscal policy instruments. It is necessary to create these methodologies in order to fulfill the requirements of the research community.

REFERENCES

1. Abramova, A., Shaposhnykov, K., Zhavoronok, Z., Liutikov, P., Skvirskyi, I., & Lukashev, O. (2021). The ecosystem of VAT administration in e-commerce: Case of the Eastern Europe countries. *Studies of Applied Economics*, 39(5), 1–15. <https://doi.org/10.25115/eea.v39i5.4909>
2. Bengoetxea, J., Maccormick, N., & Moral Soriano, L. (2001). Integration and integrity in the legal reasoning of the European Court of Justice. In G. De Burca & J. H. H. Weiler (Eds.), *The European Court of Justice* (pp. 43–85). Oxford University Press. <http://hdl.handle.net/1814/2912>
3. Binder, E. (2021). *VAT gap, reduced VAT rates and their impact on compliance costs for businesses and on consumers*. European Parliamentary Research Service (EPRS). [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694215/EPRS_STU\(2021\)694215_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694215/EPRS_STU(2021)694215_EN.pdf)
4. Birkenfeld, W. (2003). *Mehrwertsteuer der EU: Die 6., 8., und 13. USt-Richtlinie mit Erläuterungen*. Erich Schmidt Verlag GmbH & Co.
5. Bray, S. (2022, April 19). Benefits of principled tax policy: EU VAT reform results. *Tax Foundation*. <https://taxfoundation.org/eu-vat-reform-eu-own-resources/>
6. Bydlinski, F. (2011). *Juristische Methodenlehre und Rechtsbegriff*. Springer.
7. Chastel, O. (2022, January 3). Flexibility, equality, modernity and harmonization are key to delivering a compromise solution on EU VAT rates rules, writes Olivier Chastel. *The Parliament*. <https://www.theparliamentmagazine.eu/news/article/flexibility-equality-modernity-and-harmonisation-are-key-to-delivering-a-compromise-solution-on-eu-vat-rates-rules-writes-olivier-chastel>
8. Cnossen, C. (2022). The C-inefficiency of the EU-VAT and what can be done about it. *International Tax and Public Finance*, 29, 215–236. <https://doi.org/10.1007/s10797-021-09683-0>
9. Cornielje, S. (2022). The costly stalemate of EU VAT harmonization. *EC Tax Review*, 31(2), 85–96. <https://doi.org/10.54648/ecta2022007>
10. Czyzewski, B., Matuszczak, A., & Miśkiewicz, R. (2019). Public goods versus the farm price-cost squeeze: Shaping the sustainability of the EU's common agricultural policy. *Technological and Economic Development of Economy*, 25(1), 82–102. <https://doi.org/10.3846/tede.2019.7449>
11. Dahlberg, E., Næss-Schmidt, S., Virtanen, L., Marcus, S., Di Salvo, M., Pelkmans, J., Dalla Pozza, V., & Kubovicova, K. (November 2020). *Legal obstacles in member states to single market rules*. European Parliament. [https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658189/IPOL_STU\(2020\)658189_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/658189/IPOL_STU(2020)658189_EN.pdf)
12. de la Feria, R. (2009a). *The EU VAT system and the internal market* (IBFD Doctoral Series). International Bureau of Fiscal Documentation.
13. de la Feria, R. (2009b). VAT and the EC internal market: The shortcomings of harmonisation. In D. Weber (Ed.), *Traditional and alternative routes to European tax integration* (pp. 267–308). IBFD. <https://doi.org/10.2139/ssrn.2293448>
14. Delors, J. (1989). *Report on economic and monetary union in the European Community*. Committee for the Study of Economic and Monetary Union. http://aei.pitt.edu/1007/1/monetary_delors.pdf
15. Dineen, D.-M., Leyden, S., & O'Donovan, D. (2022). *VAT payments and returns 2021*. Revenue. <https://www.revenue.ie/en/corporate/documents/research/vat-payments-returns-2021.pdf>
16. Dobrowolska, B. (2008). Value added tax in European Union countries — Comparative analysis. *Acta Universitatis Lodzianis. Folia Oeconomica*, 223, 78–94. <http://hdl.handle.net/11089/7635>
17. Dzwigol, H., & Dzwigol-Barosz, M. (2020). Sustainable development of the company on the basis of the expert assessment of the investment strategy. *Academy of Strategic Management Journal*, 19(5). <https://www.abacademies.org/articles/sustainable-development-of-the-company-on-the-basis-of-expert-assessment-of-the-investment-strategy-9587.html>
18. Easson, A. J. (1993). *Taxation in the European Community* (European Community Law Series). The Athlone Press.
19. European Commission. (1985). *Completing the internal market: White paper from the Commission to the European Council (Milan, 28–29 June 1985)*. <https://op.europa.eu/en/publication-detail/-/publication/4ff490f3-dbb6-4331-a2ea-a3ca59f974a8/language-en>

20. European Commission. (2010a). *Green paper on the future of VAT: Towards a simpler, more robust and efficient VAT system*. <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0695:FIN:EN:PDF>
21. European Commission. (2010b). *Removing cross-border tax obstacles for EU citizens*. <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0769:FIN:EN:PDF>
22. European Commission. (2017). *Commission staff working document impact assessment accompanying the document: Proposal for a Council Directive amending Directive 2006/112/EC as regards harmonizing and simplifying certain rules in the value added tax system and introducing the definitive system for the taxation of trade between Member States*. <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2017:0325:FIN:EN:PDF>
23. European Commission. (2021a). *Taxation trends in the European Union: Data for the EU Member States, Iceland, Norway and United Kingdom*. Publications Office of the European Union. <https://data.europa.eu/doi/10.2778/732541>
24. European Commission. (2021b). *VAT rates applied in the Member States of the European Union: Situation at 1st January 2021*. https://taxation-customs.ec.europa.eu/system/files/2021-06/vat_rates_en.pdf
25. European Commission. (2022). *VAT in the digital age* (Final Report, Digital Reporting Requirements, Vol. 1). <https://www.vatupdate.com/wp-content/uploads/2022/07/2022-07-29-EC-VAT-in-the-digital-age-final-rep-vol-1-DRR.pdf>
26. European Union (EU). (1967a). First Council Directive 67/227/EEC on the harmonization of legislation of Member States concerning turnover taxes. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31967L0227&from=EN>
27. European Union (EU). (1967b). Second Council Directive 67/228/EEC on the harmonization of legislation of Member States concerning turnover taxes: Structure and procedures for application of the common system of value added tax. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31967L0228&from=EN>
28. European Union (EU). (1970). Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31970D0243&from=PT>
29. European Union (EU). (1977). Sixth Council Directive of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes — Common system of value added tax: Uniform basis of assessment. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31977L0388&from=EN>
30. European Union (EU). (1987). Single European Act. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:1987:169:FULL&from=CS>
31. European Union (EU). (1991). Council Directive of 16 December 1991 supplementing the common system of value-added tax and amending Directive 77/388/EEC with a view to the abolition of fiscal frontiers. *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31991L0680&from=EN>
32. European Union (EU). (2002). European Union consolidated versions of the Treaty on European Union and of the Treaty Establishing the European Community (2002/C 325/01). *Official Journal of the European Union*. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12002E/TXT&from=EN>
33. European Union (EU). (2006). Council Directive 2006/112/EC of 28 November 2006 on the common system of value-added tax. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0112&from=EN>
34. European Union. (1984). Judgment of the Court (Fifth Chamber) of 18 January 1984. — Ekro BV Vee- en Vleeshandel v Produktschap voor Vee en Vlees. — Reference for a preliminary ruling: College van Beroep voor het Bedrijfsleven — Netherlands. — Export refunds for beef and veal — “thin flank”. — Case 327/82. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=ecli%3AECLI%3AEU%3AC%3A1984%3A11>
35. European Union. (1985). Judgment of the Court (Fourth Chamber) of 27 November 1985. SA Rousseau Wilmot v Caisse de compensation de l'Organisation autonome nationale de l'industrie et du commerce (Organic). Reference for a preliminary ruling: Cour d'appel de Douai — France. National levies based on turnover. Case 295/84. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A61984CJ0295>
36. Eurostat. (n.d.). Main national accounts tax aggregates. https://ec.europa.eu/eurostat/databrowser/view/gov_10a_taxag/default/table?lang=en
37. Farmer, P., & Lyal, R. (1995). *EC Tax Law* (1st ed.). Clarendon Press.
38. Fenelly, N. (1996). Legal interpretation at the European Court of Justice. *Fordham International Law Journal*, 20(3), 656-679. <https://ir.lawnet.fordham.edu/cgi/viewcontent.cgi?article=1526&context=ilj>
39. Fragoso, T. T. (2020). *Tax harmonisation in the EU: Intelligent tax administration*. dGen.
40. Fuest, C., & Pisani-Ferry, J. (2020). *Financing the EU: New context, new responses* (EconPol Policy Report, No. 24). Leibniz Institute for Economic Research at the University of Munich. <https://www.econstor.eu/handle/10419/225019>
41. Kollmann, J. (2019). *Taxable supplies and their consideration in European VAT: With selected examples of the digital economy* (IBFD Doctoral Series). International Bureau of Fiscal Documentation.
42. Lenaerts, K., Maselis, I., & Gutman, K. (2015). *EU Procedural Law*. Oxford University Press.
43. Lyons, S. (1966). *International tax glossary*. International Bureau of Fiscal Documentation.
44. Mach, P. (2018). VAT rates and their impact on business and tax revenue. *European Research Studies Journal*, 21(1), 144-152. <https://doi.org/10.35808/ersj/937>
45. Maduro, M. P. (2007). Interpreting European Law: Judicial adjudication in a context of constitutional pluralism. *European Journal of Language Studies (EJLS)*, 1(2), 1-21. https://cadmus.eui.eu/bitstream/handle/1814/7707/EJLS_2007_1_2_8_POI_EN.pdf?sequence=1&isAllowed=y
46. Maris, T. E. (30 November, 2017). *Harmonization of national indirect taxation for the establishment and the functioning of Union's Internal Market according to Art. 113 TFEU and the prohibition of additional turnover taxes in EU law and CJEU Jurisprudence* (Thesis, Vrije Universiteit Brussel). Institute for European Studies. <https://rb.gy/y5iyjz>
47. Musgrave, P. B. (1967). Harmonization of direct business taxes: A case study. In C. S. Shoup (Ed.), *Fiscal harmonization in common markets* (Vol. II). Columbia University Press.
48. Saługa, P. W., Szczepańska-Woszczyna, K., Miśkiewicz, R., & Chład, M. (2020). Cost of equity of coal fired power generation projects in Poland: Its importance for the management of decision-making process. *Energies*, 13(18), Article 4833. <https://doi.org/10.3390/en13184833>

49. Szudoczky, R. (2014). *The sources of EU Law and their relationships: Lessons for the field of taxation* (IBFD Doctoral Series). International Bureau of Fiscal Documentation.
50. Terra, B. J. M., & Wattel, P. J. (2012). *European Tax Law* (6th ed.). Kluwer Law and International.
51. Thurston, H. (1963). *The EEC reports on tax harmonisation: The report of the Fiscal and Financial Committee and the report of the sub-groups A, B and C*. International Bureau of Fiscal Documentation.
52. Uhl, S. (2006). Time for a tea party? Why tax regimes beyond the nation state matter, and why citizens should care. *European Review*, 14(4), 566–567. <https://doi.org/10.1017/S1062798706000561>
53. Unver, M. B. (2021). End(s) of the harmonization in the European Union: Centrifuging or engineering? *Journal of Information Policy*, 11, 582–641. <https://doi.org/10.5325/jinfopoli.11.2021.0582>
54. van den Biggelaar, S., Janssen, S., & Zegers, A. T. M. (2008). *VAT and ERP: What a CIO should know to avoid high fines*. Compact. <https://www.compact.nl/pdf/C-2008-2-Biggelaar.pdf?x33882>
55. Weber, D. (2010). *Traditional and alternative routes to European tax integration*. International Bureau of Fiscal Documentation.
56. Weiler, J. H. H. (1987). The Court of Justice on trial [Review of the book *On law and policy in the European Court of Justice*, by H. Rasmussen]. *Common Market Law Review*, 24(3), 555–589. <https://doi.org/10.54648/cola1987027>
57. YourEurope. (2022). VAT rules and rates. https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm

APPENDIX

Table A.1. VAT as % of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Difference 2010-2020 (pp)	Ranking 2020	Revenue 2020 (million euro)
EU-27	6.8	6.5	6.8	6.9	6.9	6.9	7.0	7.0	7.0	7.1	7.1	7.1	6.9	0.1		929.385
EA-19	6.5	6.3	6.6	6.6	6.7	6.7	6.7	6.8	6.8	6.8	6.9	6.9	6.7	0.1		758.421
Belgium	6.	6.8	7.0	6.9	7.0	6.9	6.8	6.6	6.7	6.7	6.8	6.6	6.4	-0.6	22	29.061
Bulgaria	10.3	8.3	8.3	8.3	8.5	9.1	9.0	8.8	9.1	9.3	9.1	9.2	9.2	0.9	6	5.635
Czech	6.4	6.5	6.6	6.8	7.0	7.3	7.4	7.2	7.4	7.6	7.6	7.5	7.4	0.8	15	15.970
Denmark	9.6	9.7	9.4	9.5	9.5	9.2	9.2	9.1	9.3	9.4	9.6	9.4	9.7	0.3	3	30.449
Germany	6.9	7.3	7.0	7.1	7.1	7.0	6.9	7.0	7.0	6.9	7.0	7.0	6.6	-0.4	20	221.562
Estonia	7.7	8.7	8.5	8.2	8.4	8.2	8.5	9.1	9.1	9.0	9.0	9.0	9.1	0.6	7	2.439
Ireland	7.0	6.1	6.0	5.7	5.8	5.8	5.9	4.5	4.7	4.4	4.3	4.3	3.4	-2.6	27	12.630
Greece	7.0	6.3	7.1	7.4	7.3	7.0	7.2	7.3	8.2	8.3	8.5	8.4	7.8	0.7	13	12.925
Spain	4.7	3.4	5.2	5.1	5.3	5.9	6.2	6.4	6.4	6.5	6.6	6.5	6.3	1.1	23	70.616
France	6.9	6.7	6.8	6.8	6.8	6.8	6.9	6.9	6.9	7.1	7.1	7.1	7.0	0.2	19	161.121
Croatia	11.8	11.2	11.3	11.2	12.2	12.4	12.4	12.6	12.7	13.0	13.2	13.4	12.6	1.3	1	6.320
Italy	5.7	5.5	6.0	6.0	5.9	5.8	5.9	6.1	6.0	6.2	6.2	6.2	6.0	0.0	25	99.808
Cyprus	9.6	8.3	8.2	7.7	8.1	7.8	8.7	8.4	8.7	8.5	9.0	9.0	8.3	0.1	10	1.786
Latvia	6.3	5.9	6.6	7.0	7.2	7.4	7.6	7.6	8.0	8.0	8.4	8.6	8.6	2.0	8	2.549
Lithuania	7.9	7.3	7.8	7.8	7.5	7.5	7.6	7.7	7.8	7.8	7.7	7.9	7.9	0.1	12	3.907
Luxembourg	6.0	6.3	6.3	6.6	6.9	7.0	7.3	5.6	5.6	5.8	5.8	5.9	5.7	-0.6	26	3.652
Hungary	7.6	8.3	8.5	8.3	9.1	8.9	9.2	9.5	9.1	9.2	9.5	9.5	9.8	1.3	2	13.429
Malta	7.4	7.3	7.0	7.5	7.3	7.3	7.3	6.7	6.7	6.8	7.1	6.7	6.5	-0.5	21	851
Netherlands	6.7	6.6	6.5	6.4	6.4	6.4	6.4	6.5	6.8	6.8	6.8	7.1	7.3	0.8	18	58.211
Austria	7.4	7.7	7.7	7.5	7.7	7.7	7.6	7.6	7.6	7.7	7.6	7.6	7.4	-0.3	16	28.136
Poland	7.9	7.3	7.6	7.8	7.2	7.1	7.2	7.0	7.2	7.8	8.1	7.9	8.0	0.4	11	41.856
Portugal	8.1	6.8	7.5	8.1	8.3	8.0	8.5	8.6	8.5	8.6	8.7	8.8	8.4	0.9	9	16.803
Romania	7.5	6.3	7.6	8.7	8.3	8.1	7.6	8.1	6.4	6.2	6.3	6.2	6.1	-1.5	24	13.368
Slovenia	8.3	7.9	8.0	8.1	8.0	8.4	8.4	8.3	8.2	8.1	8.2	8.0	7.5	-0.5	14	3.529
Slovakia	6.7	6.6	6.1	6.6	5.9	6.3	6.6	6.8	6.7	7.0	7.1	7.3	7.4	1.3	17	6.820
Finland	8.1	8.4	8.3	8.7	8.9	9.2	9.2	9.0	9.1	9.0	9.2	9.2	9.3	1.0	4	22.013
Sweden	8.7	9.0	9.0	8.9	8.8	8.8	8.9	8.9	9.2	9.2	9.2	9.1	9.2	0.2	5	43.938
Iceland	8.5	7.5	7.4	7.4	7.7	7.6	7.7	7.9	8.2	8.9	8.6	8.0	7.9	0.5		1.512
Norway	7.1	7.7	7.8	7.6	7.5	7.6	7.8	8.2	8.7	8.6	8.4	8.6	9.1	1.3		29.060

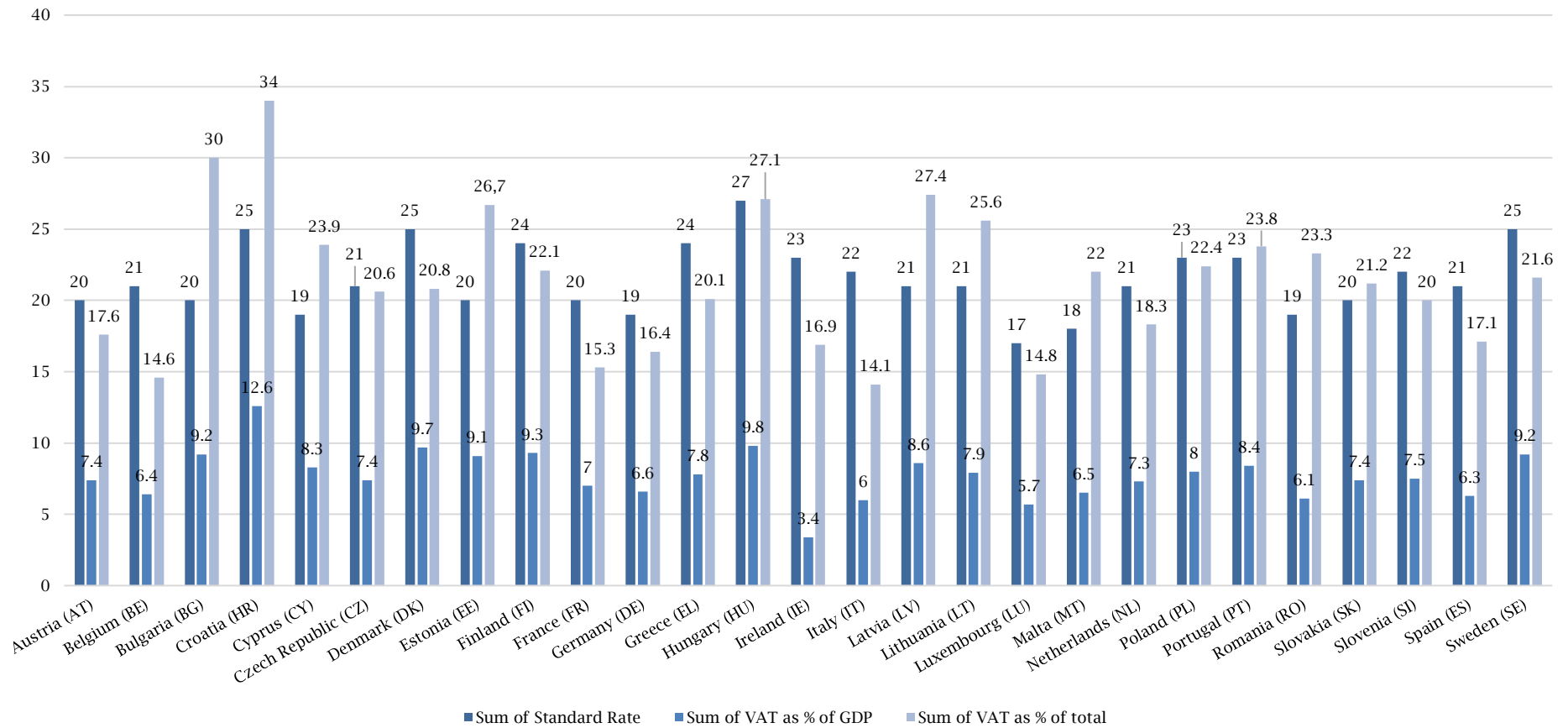
Source: European Commission (2021a).

Table A.2. Total % of VAT in each MS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Difference 2010-2020 (pp)	Ranking 2020	Revenue 2020 (million euro)
EU-27	17.6	17.2	18.0	17.9	17.5	17.4	17.5	17.6	17.6	17.7	17.8	17.9	17.3	-0.7		929.385
EA-19	16.9	16.5	17.3	17.1	16.8	16.7	16.8	16.9	16.9	17.0	17.0	17.2	16.4	-0.9		758.421
Belgium	15.6	15.7	16.0	15.6	15.3	15.1	14.9	14.7	15.1	14.9	15.1	15.3	14.6	-1.4	26	29.061
Bulgaria	33.9	31.2	32.6	32.6	32.7	32.4	31.7	30.6	31.0	31.1	30.7	30.3	30.0	-2.6	2	5.635
Czech	19.2	20.1	20.1	20.0	20.3	21.0	21.5	21.0	21.0	21.4	21.0	20.9	20.6	0.5	16	15.970
Denmark	21.5	21.5	20.9	21.0	20.8	19.9	18.7	19.7	20.4	20.5	21.5	20.2	20.8	-0.1	15	30.449
Germany	18.1	18.8	18.8	18.7	18.4	18.2	18.1	18.0	17.8	17.6	17.5	17.5	16.4	-2.4	23	221.562
Estonia	24.8	24.8	25.7	26.0	26.6	26.0	26.6	27.2	27.1	27.5	27.3	26.7	26.7	1.0	5	2.439
Ireland	24.0	21.6	21.6	20.4	20.6	20.1	20.5	19.4	19.8	19.4	19.4	19.5	16.9	-4.7	22	12.630
Greece	22.1	20.4	22.0	21.6	20.0	19.5	19.7	20.0	21.1	21.0	21.3	21.3	20.1	-1.9	17	12.925
Spain	14.7	11.6	16.4	16.3	16.5	17.8	18.3	19.0	19.1	19.2	19.0	18.7	17.1	0.7	21	70.616
France	16.2	16.0	16.1	15.7	15.3	15.0	15.1	15.1	15.1	15.2	15.3	15.8	15.3	-0.8	24	161.121
Croatia	32.1	30.8	31.7	31.9	34.1	34.3	34.1	34.4	34.2	35.0	35.1	35.5	34.0	2.3	1	6.320
Italy	13.9	13.2	14.6	14.5	13.7	13.4	13.8	14.1	14.3	14.8	14.8	14.7	14.1	-0.5	27	99.808
Cyprus	27.5	26.0	25.9	24.1	25.6	24.5	25.7	25.4	27.0	25.8	27.2	26.1	23.9	-2.0	7	1.786
Latvia	22.5	21.4	23.5	23.9	24.6	25.3	25.5	25.7	26.1	25.8	27.1	28.0	27.4	3.9	3	2.549
Lithuania	25.9	24.1	27.5	28.7	28.0	27.7	27.5	26.7	26.3	26.6	25.8	26.0	25.6	-1.9	6	3.907
Luxembourg	17.0	17.5	17.5	18.1	18.8	19.4	20.1	16.0	15.8	15.8	14.9	15.0	14.8	-2.7	25	3.652
Hungary	19.3	21.3	23.0	22.9	23.3	23.0	23.9	24.4	23.3	24.4	25.8	26.2	27.1	4.1	4	13.429
Malta	23.3	22.9	22.6	23.7	23.2	23.3	23.3	22.7	22.1	22.5	23.4	22.3	22.0	-0.6	12	851
Netherlands	18.6	18.8	18.4	18.2	18.0	17.8	17.3	17.6	17.6	17.4	17.6	18.2	18.3	-0.1	19	58.211
Austria	17.9	18.7	18.7	18.3	18.4	18.0	17.8	17.6	18.3	18.3	18.0	17.9	17.6	-1.1	20	28.136
Poland	23.1	23.1	24.2	24.6	22.3	22.1	22.4	21.6	21.6	22.8	23.1	22.6	22.4	-1.8	10	41.856
Portugal	25.4	22.9	24.8	25.1	26.3	23.7	24.8	24.9	24.8	25.1	25.1	25.4	23.8	-1.0	8	16.803
Romania	28.1	24.9	28.7	30.6	29.7	29.8	27.8	28.8	24.9	24.9	24.3	23.7	23.3	-5.4	9	13.368
Slovenia	22.1	21.1	21.2	21.5	21.0	22.3	22.4	22.1	21.8	21.7	21.9	21.5	20.0	-1.2	18	3.529
Slovakia	23.3	22.9	21.9	22.8	20.6	20.5	20.7	20.9	20.3	20.7	20.8	21.1	21.2	-0.7	14	6.820
Finland	19.6	20.5	20.4	20.9	21.1	21.3	21.0	20.6	20.7	21.0	21.6	21.7	22.1	1.7	11	22.013
Sweden	19.8	20.5	21.1	21.1	20.9	20.8	21.0	20.9	20.8	20.8	21.1	21.3	21.6	0.5	13	43.938
Iceland	24.9	23.9	22.8	22.4	22.8	22.2	20.8	22.6	16.3	23.8	23.6	22.9	22.1	-0.7		1.512
Norway	17.1	18.6	18.5	18.0	18.1	19.1	20.0	21.3	22.3	22.1	21.1	21.4	23.6	5.1		29.060

Source: European Commission (2021a).

Figure A.1. Standard rates, VAT GDP, VAT total revenues (nominal terms) in EU MS, 2020



Source: Authors' elaboration based on data processed in Table A.1 and Table A.2 for the year 2020.