THE MAIN PROBLEMS AND LIMITATIONS OF HARMONIZATION PROCESS OF PERSONAL INCOME TAXATION

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Summary

The current taxation of personal incomes is a very complex phenomenon which should be analyzed not only from the legal point of view, but also taking into account its social, cultural, economic and political and system aspects. We cannot isolate the economic sphere from the tax sphere, as income taxes directly affect the way taxpayers function, their purchasing power, they determine labor costs for entrepreneurs and thus significantly influence the GDP growth rate. The issues of harmonizing taxation of incomes obtained by individuals who do not act as economic operators is practically absent in scientific literature. The only issues that are analyzed are those related to taxation of incomes from savings, transfers, capital gains, mergers and divisions. This is so because it is required by the nature of conducting economic operations within the common market. Taking into account the specificity of personal income tax, the issues of tax competition and significant differences in PIT constructions in EU countries, it was decided to assess whether it possible and desirable to harmonize this form of taxation with reference to individuals who do not act as economic operators.

Keywords: taxation, income, harmonization, PIT, coordination, common market, taxpayer.

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Introduction

The issues of harmonizing taxation of incomes obtained by individuals who do not act as economic operators is practically absent in scientific literature. The only issues that are analyzed are those related to taxation of incomes from savings, transfers, capital gains, mergers and divisions. This is so because it is required by the nature of conducting economic operations within the common market. Taking into account the specificity of personal income tax, the issues of tax competition and significant differences in PIT constructions in EU countries, it was decided to assess whether it possible and desirable to harmonize this form of taxation with reference to individuals who do not act as economic operators[3].

As for the legal solutions in tax law, the doctrine commonly accepts the view that taxes and the whole tax system should be neutral and should perform only the fiscal function of taxation. This means that taxes should be constructed so as not to hinder the existence and operations of taxpayers, but also so that they do not contain any preferences for selected groups of taxpayers. Favoring tax neutrality does not determine the negative attitude to achieving non-fiscal goals of the state through tax preferences. For example, using various forms of tax preferences may be a consequence of subjectively understood tax equity. Such equity requires noticing different material, family and social situation of each taxpayer. Non-fiscal functions of taxation are best realized by income taxes due to their specific construction. Non-fiscal aspects of taxes gained popularity under the influence of J.M. Keynes theories. In classical economics, taxes were treated exclusively as a source of means for covering necessary public expenditure. In Keynes' theory, taxes became a major instrument used by the state to influence the economic cycle. Stability of the economy within the anti-cyclical policy, along with the need to stimulate global demand, accounted for the growth of stability and redistribution functions of taxation. A result of such approach to using taxes in fiscal policy was seen in growing budget deficits and public debt and growing level of tax burden. This led to popularity of neo-liberal theories, the most popular of them being the supply side economics. It claimed that high tax burden generates low level of savings, high inflation and low productivity and innovativeness of the economy[4].

3 See more: BUCHANAN J.N.: Finanse publiczne w warunkach demokracji. Warszawa, PWN. 1997; CNOSSEN S.: Tax Policy in the European Union: A review of Issues and Options, OCFEB Studies in Economic Policy, Erasmus University Rotterdam, 2001; DRUESNE G.: Prawo materialne i polityki Wspólnot i Unii Europejskiej, Scholar, Warszawa 1996.

4 Mc CONNELL C.R.: *Economics*, McGraw-Hill Book Company, New York 1987.

Although personal income tax is commonly used to achieve various economic and social goals, its fiscal function is still considered the most important one. We should also observe that the doctrine quite commonly tries to promote the thesis of tax neutrality as a specific panacea for weakened economic growth of EU countries and deteriorating competitiveness of European economies[5]. The belief in tax neutrality stems from the fiscal function of taxes. According to some representatives of the doctrine, we should not use taxes to achieve various social goals, often contradictory to fiscal requirements of the state. It is difficult to agree with the concept of tax neutrality, as it impossible in practice to separate tax law from the influences of broadly understood politics. Moreover, the thesis of tax neutrality was easy to defend when taxes constituted below 20% of GDP share. In many countries these days tax revenues reach or even exceed half their GDP. Therefore, such large-scale redistribution brings about serious economic and social effects.

Research methodology

We would like to enunciate **two aims** of the paper. The first is to determine whether harmonization of personal income taxation in the European Union countries is possible and desirable and the second is to find out the main reference points for transformation of an individual's taxation system in European Union Countries. The assessment of the possibility and desirability of harmonizing this form of taxation and find out the main reference points for transformation of an individual's taxation system in European Union Countries has been limited to personal income of individuals who do not conduct any form of business activity and it reflects the short and long-term run.

The paper objective formulated in such a way requires conducting a **comparative analysis** of personal income taxation systems in the European Union countries, taking into account the specificity, common features and differences in income tax constructions in the surveyed countries as well as the areas, possibilities and potential directions for harmonizing this form of taxation.

Within the conducted analysis we attempted at verifying the following **one research hypothesis**: there are no economic, political and social reasons for harmonization of income taxation of individuals who do not conduct any business activity in the European Union countries.

5 XU J.: Taxation and Economic Performance: A Cross-Country Comparison and Model sensitivity Analysis, WP Departament of Finance Canada, 1998.

The basic tools for conducting a wide-ranging analysis and evaluation of the possibility of harmonizing personal income taxation in the European Union countries will be the following research methods:

a) **comparative analysis** of the specificity of personal income taxation in the European Union countries, with particular emphasis paid to construction elements of this taxation form;

b) **functional analysis**, applied in order to determine the cause and effect relationships of the examined phenomena and processes influencing the construction of the system personal income tax burden and the possibilities of harmonizing this form of direct taxation;

c) **research method in dynamic presentation**, essential both for the holistic look at personal income taxation systems as well as for the evaluation of the speed of progressing 'quiet harmonization' and for presenting the appearing development tendencies of this tax in the context of evolution of tax systems in the European Union countries.

Harmonization of taxes

Harmonization of taxes in the European Union is very closely tied with the concept of the common market. If this concept is to make sense, we must, first of all, fulfill the requirement of equal rights for each market participant, that is each entity from any member state. Due to the fact that entities compete mainly in price, the factors affecting it should be similar in all member states (harmonization of indirect taxes). Tax harmonization is a process leading to standardization of tax systems in various countries. The process aims at achieving a state in which tax issues do not influence the flow of goods, services and production means between countries. Harmonization is necessary when the differences in tax systems between particular countries account for the fact that decisions made by one or a few countries bring particular effects to other countries. Thus it all boils down to harmonizing tax systems of various countries and to ensuring that their functioning is in line with economic union goals. Tax harmonization is a necessary element of economic integration, its degree closely related to the level of integration advancement[6].

6 See more: WOŁOWIEC T.: Wybrane zagadnienia harmonizacji opodatkowania osób fizycznych, Finansowy Kwartalnik Internetowy „e-Finanse" 2011, vol 7, nr 2, www.e-finanse.com. pp. 34-52; WOŁOWIEC T.: Specifics of taxation approaches of EU member states to the Personal Income Tax. „Academy Review". Dniertopietrovsk University of Economy and Law, 2011, nr 1. Vol 34; WOLOWIEC T. DUSZYNSKI M. : Private individual taxation system. „Ekonomika i Organizacja Przedsiębiorstwa", No 1/2004; WOŁOWIEC T., DUSZYNSKI M.: Selected issues in harmonisation and

The imperative for harmonization of direct taxes, including personal and corporate income taxes and taxes on property gains, was not clearly stated in the Treaty establishing the European Economic Community. The legal base for initiatives in harmonization processes was Article 100 of the Treaty, stipulating harmonization of those regulations that directly affect the creation and operation of internal common market. The process of direct taxes harmonization covered different income tax regulations which limited the freedom of income flow in form of dividends, interests, license fees and capital between Community members (this will be discussed in a separate analysis of the principles of capital income taxation)[7].

PIT harmonization

We should remember that the principles of income taxation in EU countries do not constitute such an important area of harmonization as indirect taxes. It is assumed that the differences found in direct taxations are less dangerous for the functioning of the common market. Moreover, harmonization of these taxes is much more difficult than indirect taxes, both from the political, technical and legislative point of view. Only some elements of corporate income tax are being harmonized, as they relate to international aspects of company operations that could cause potential discrimination in treatment of home and foreign companies and which refer to avoiding double taxation. Probably further elements of corporate income tax will be harmonized next – tax rates and taxation base. Areas of PIT harmonization: taxation of incomes from savings paid out in form of interests and mutual administrative assistance in tax issues. The main element differentiating direct taxation is its slight degree of normative harmonization. It is commonly believed that direct taxes exert less destructive influence on the functioning of common market, therefore work on their harmonization started later, lasted longer and did not go as far as in case of indirect taxes. Direct tax regulations in the European Union are left at the discretion of member states (except for the need to observe the areas presented in the table). Particular member states enjoy significant freedom in shaping their home solutions in this area. However, they are obliged to treat home and foreign operators equally as far as taxation is concerned[8].

taxation of PIT in EU member states. „Держаba Та РегіонИ". 2009, nr 7; WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012.

7 GŁUCHOWSKI J.: Harmonizacja podatków pośrednich i bezpośrednich, „Glosa" No 8/1999.

8 See more: WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of

Competition between tax systems forces certain solutions in national tax systems, aimed at bringing closer constructions of certain taxes in order to ensure optimal functioning of the common market. Thus "quiet harmonization" is a consequence of progressing competition among national tax systems in particular taxation forms[9]. The effect of quiet harmonization is bringing closer construction solutions in personal income tax in European Union states and it leads to find out the main reference points for transformation of an individual's taxation system in European Union Countries has been limited to personal income of individuals who do not conduct any form of business activity and it reflects the short and long-term run. Referring to PIT it was emphasized that the tax should remain at discretion of member states. The only harmonization activities should concern removing barriers to four economic freedoms and providing uniformity of taxation.

Similarities in the personal income tax in Community states concern the following areas[10]:

- The tax is related to total (global) income of a taxpayer,
- Scales are progressive with various numbers of ranges and minimum and maximum tax rate values,
- Most countries use tax-free amounts,
- Tax burdens are usually adjusted to inflation rate through the system of automatic or semi-automatic indexation o changes to tax thresholds,
- Personal income tax reflects the principle of taxpayer's payment

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personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012; WOŁOWIEC T. ISMAILOVA D. ROGIZIŃSKA-MITRUT J. (red). New trends in social policy and welfare economy. Kiyev: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012 and ROGOZIŃSKA-MITRUT J. WOŁOWIEC T.: Impact of economic crisis on the management of companies. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION, 2011.

9 Tax revenue in EU Member States: Trends, level and structure 1995-2003, "Statistic in Focus – Economy and Finance", No 3/2005. 9; M.Byczkowska, K.Czyrka, Factoring jako niekonwencjonalna forma finansowania mikro i małych przedsiębiorstw red. A.Bielawska, A. Szopa, Uwarunkowania rynkowe rozwoju mikro, małych i średnich przedsiębiorstw. Systemy finansowania i oceny, Zeszyty Naukowe nr 637, Ekonomiczne problemy usług nr 62,Wyd. WNUS, Szczecin 2011, s.42-52.

10 GAŁUSZKA J.: Podatek od dochodów osobistych krajach Unii Europejskiej. „Przegląd Podatkowy" No 2/2002; ZEE H.H.: Personal income tax Reform: Concepts, Issues, and Comparative Country Development. Working Paper WP/05/87, IMF, 2005; WYŚCIŚLOK J.: Reforma systemów podatkowych krajów członkowskich OECD i Unii Europejskiej oraz ich harmonizacja. Videograf II, Katowice 2000; Tax Guide to Europe, 2010; OECD Tax Data Base 2011.

capacity through its varied system of tax reliefs and exemptions;

- Different rules are used for taxation of family incomes, revenues from selling property and movable assets and capital incomes,
- There is a varied system of costs of obtaining revenues, related to the way in which revenue is gained,
- It does not differentiate tax burden due to sources of revenues from which it is obtained and its allocation,
- Income tax contains tax preferences related to the way the income is spent.

A feature of direct taxes is that there is a clear connection between the taxpayer's situation (income, property) and tax burden. From the psychological point of view indirect taxes are the most hated sacrifice to be made by the taxpayer. Direct taxes may de-motivate the taxed entities. Excessive tax burden may slow down income activity of entities, which may result in not only slower economic growth, but in its disappearance as well. That is why not only the size of tax burden in a particular country matters, but also the structure of the whole tax system and the construction of particular taxes. In case of direct taxes tax scales are vital. In a theoretical presentation, tax as an economic category is subject of numerous analyses, both referring to individual taxpayers, their groups and the whole economy. This concerns both indirect and direct taxes. Despite impressive theories of economics, theories of public finance, hundreds of years of experience, tax issues are still a controversial topic, which is evident in a discussion on line tax. The deficit of theories and polarization of opinions concerns the role of tax in micro-economics, where it would seem easy to determine the relationship between tax burden, tax scale and an economic situation of a taxpayer and the decision made by him. This results from the fact that the taxpayer's situation is affected by a number of other factors, therefore it is difficult to isolate the tax factor, if we do not take into account abstract analyses. The situation is further complicated when the subject of our analysis is the influence of a particular tax on the whole group of taxpayers or the whole tax system on economy (for example the theory of automatic stabilizers in business cycle). The difficulty of tax analysis concerning tax influence on entities and economy increases if we go beyond the boundaries of the state with such analysis. Tax relations are further complicate and tax effects are even more difficult to assess or quantify. This is an important statement, as it partly explains the source of controversies concerning opposite tax

doctrines – tax harmonization versus tax competition. To exemplify the difficulties we will use the phenomenon of transferring direct taxes[11]. Direct taxes may concern: income from work – income from economic activities, income from property and property rights, income from capital and from money savings. The subject of direct taxes is then the resources of work, land, physical capital, financial capital – essential factors (basis) of economic activity. Therefore of fundamental significance is how particular factors react to imposed taxes and changes. Also the flexibility of various factors to tax changes is vital (marginal analysis).

Effects of taxation differentiation

The theoretical analysis of the effects of taxation differentiation may be conducted on various levels. Below we list a few of them[12]:

- tax influence on labor costs. High taxes increase labor costs, as income after taxation (disposable income) is low, which is a natural basis for employees' pay demands from employers, which implicates the position of the enterprise on competitive market and company profitability. It is understood that differentiation of tax conditions between countries (regions) exerts considerable influence on conditions of conducting business activity;
- changes in direct taxes always bring about changes in marginal production costs;
- taxes always constitute a burden on a given entity, therefore there

11 See more: WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012 and ROGOZIŃSKA-MITRUT J. WOŁOWIEC T.: Impact of economic crisis on the management of companies. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION, 2011.

12 WOŁOWIEC T.: Opodatkowanie dochodów osób fizycznych w wybranych krajach UE. /in/ Polityka społeczna. Wybrane zagadnienia. Instytut Polityki i Spraw Socjalnych, Warszawa 2005; WOŁOWIEC T.: Podatek dochodowy od osób fizycznych w systemach podatkowych krajów Unii Europejskiej z uwzględnieniem różnic miedzy krajami UE-15 i UE-10. /in/ Ekonomia, zarządzanie marketing. Księga Jubileuszowa ku czci Prof. Jerzego Dietla, (ed.) by Jan W. Wiktor, WSB-NLU, Nowy Sącz 2007; WOŁOWIEC T.: Koncepcje pojęcia dochodu i ich wpływ na cechy podatku dochodowego od osób fizycznych w krajach strefy euro. /in/ Polska w strefie euro – szanse i zagrożenia. (ed.) by J. OSTASZEWSKI, SGH, Warszawa 2008; WOŁOWIEC T.: Wybrane aspekty sprawiedliwości opodatkowania i ekonomicznej efektywności. /in/ NALEPKA A. (ed.) Organizacje komercyjne i niekomercyjne wobec wzmożonej konkurencji oraz wzrastających wymagań konsumentów. Nowy Sącz: Wyższa Szkoła Biznesu – NLU 2008.

is a defense reaction of a taxpayer who tries to transfer this burden onto other subjects. Hundreds of years of observations of taxpayers' reactions allows us to state that it is easier in case of indirect taxes and more difficult with direct taxes. Income taxes are not transferrable and the taxpayer's reaction may only consist in limiting income activities. This is especially visible in progressive tax scales, whose use increases marginal taxation and decreases marginal income. The final decision of a taxpayer in this matter implicates the income usefulness curve;

- the issue of direct tax transferability looks different in case of taxing an employer than an employee. The employer will try to transfer the increase of tax rates into manufacturing costs and then into prices. His possibilities depend on the type of taxed goods and the state of the market (competition), which is manifested in price flexibility of demand. The chances of transferring increased tax burden grow with lower price flexibility of demand. The second possibility consists in transferring the tax effects on employees by reducing their salaries. This constitutes the so-called retro-transferability, usually ineffective, as employees oppose such practices. The degree of transferability of increasing taxes on employees depends on the state of the labor market, unemployment rate, labor market flexibility and openness;
- measuring the phenomenon of tax transferability is difficult even in case of a closed economy, as the effects of growing taxes may be distributed, for example, into prices, non-pay manufacturing costs, entrepreneur's profit margin. These difficulties are multiplied in an open economy, as the mechanism of tax transferability affects the society (economy) of another country. In its theoretical meaning, tax (fiscal) dumping means that redistribution of social income takes place between countries through taxes. This is especially visible when countries belong to a uniform economic association, which has a mutual fund – budget, which also serves as a source of income for member states' budgets. The use of tax dumping means that part of income is transferred in an open or hidden way (transfer prices) to countries with lower taxes. An effect of this is further increase

of taxes in countries which do not use tax dumping, as the budget increase its revenue deficit, or limiting expenditure, or increasing public debt. It should come as no surprise then that after admission of 10 new countries to the EU, France and Germany threatened to stop their payments to EU budget due to considerably lower corporate income tax rates in such countries as: Slovakia, Poland, Czech republic and the Baltic states, where entrepreneurs began to move their economic activity. We should add today that it happened with closed labor markets.

In times of internationalization of economic relations and economic integration, the mechanism of tax transferability is becoming international. This concerns both taxation of income from work as well as income on economic activity, interests, capital gains, etc. Personal decisions concerning taking up work – assuming that there are formal restrictions in flow of labor between countries – are determined by salaries and taxes. Therefore we experience a natural phenomenon of work migrations to places where pay and tax conditions are more favorable. While in case of taxation on incomes from work, possible change of place (country) of work is easier, in case of entrepreneurs it is a more daunting venture, as it requires complying with the legislation of the country where the activity or its part (establishing dependent companies) is transferred. The mobility of labor and capital implicates the issues of tax harmonization. From the economic point of view harmonization of direct taxes and tax competition force us to consider further theoretical and legal aspects, such as[13]:

- effects of harmonization of direct taxes on state budget, imbalance in public finance,
- allowed scope of realizing tax economic rent by international corporations[14],

13 TANZI V. ZEE H.H.: Taxation and the Household Saving Rate: evidence from OECD countries, IMF “Working Paper”, March 1998; TORRES C. MELLBYE K. BRYS B.: Trends in Personal Income Tax and Employee Social Security Contribution Schedules, OECD Working Papers No 12/2012.

14 SOBOŃ J. WOŁOWIEC T.: Personal income taxation. Harmonization and differentiations across the European Union. NOVIKOW W. PALACKO J. SIROJC Z. (ed.) Społeczno-ekonomiczne problemy gospodarowania w warunkach transformacji. Warszawa: Uczelnia Warszawska im. Marii Skłodowskiej-Curie, Vysoka skola medzinarodneho podnikania ISM Slovakia v Presovie, Winnickij Kooperatiwnyj Institut. 2011.

- mechanism of reallocation of public debt between countries due to the above-mentioned rent,
- limiting the possibility of lowering taxation of personal incomes and consumption taxes when harmonization of direct taxes leads to lower public revenues,
- effects of labor mobility on home economy due to differentiated tax conditions,
- changes in the structure of tax system in relation: indirect taxes – direct taxes, as to how these relations attract foreign investment,
- motivating national investors to invest,
- scope of using tax credit.

Reference points for transformation of an individual's taxation system in European Union Countries

The theoretical theorems, scientific conclusions, practical proposals and recommendations made by the author in this dissertation all aim at the conclusion that although harmonization of personal income taxation is possible from a legal point of view in the long run, from the economic and social perspective it is unjustified to harmonize this form of taxation. Thus, proving the thesis that we can find out the main reference points for transformation of an individual's taxation system in European Union Countries and there is no goal and sense in harmonizing and standardizing PIT constructions, and theoretical, methodological and practical novelty of the dissertation consists in:

1. In their pure form, income taxes do not stimulate inclination for investment and savings. Income tax is a burden on the saved and spent part of income. In order to stimulate saving and/or investing, it is necessary to introduce some reliefs and exemptions to the tax construction, granted for creating (developing) investment. The author conducted own research on the relationship between the level of fiscalism (relation of PIT tax revenues and social insurance contributions to average annual GDP growth rate, calculated with purchasing power parity per capita) and the structure of tax system, and economic growth speed for 27 EU countries in 1991-2012.
2. The research shows that in the short period of time it is difficult to prove the relationship between reduction of tax rates and GDP

growth rate. Negative correlation means that the higher the level of marginal tax rates, the lower the GDP growth. The obtained correlation coefficients are statistically insignificant, that is so small that there are no grounds for rejecting the hypothesis of the existence of a relationship between the level of marginal tax rates in the short period of time. These results do not allow us to confirm the theoretical postulates of the supply side school of economics. Its advocates claim that reduction of marginal tax rates in income tax leads to lowering labor costs, stimulating consumption and production, and in consequence to shifting the global supply curve so that the balance point between demand and supply indicates higher level of GDP and prices. This activity is supposed to lead to economic growth and lower inflation. An effect of these activities may be increased trade deficit caused by growing demand for consumption and investment goods and increased capital surplus due to increased inflow of foreign capital and decreased outflow of national capital abroad[15].

3. Apart from the influence of the level of fiscalism on economic growth, we also analyzed and researched the structure of budget tax revenues (including quasi-taxes). It allowed us to answer how particular types of fiscal revenues affect the GDP growth dynamics. The analysis covered three tax groups. The first one comprises income taxes (PIT, CIT and taxes on capital gains), the second one – social insurance contributions and their derivatives, the third one – incomes from work (jointly PIT and social insurance contributions and their derivatives). Distinguishing the fourth group was justified by the fact that social performance can be financed with general taxes or with premiums outside the budget, as burden classified as social insurance.
4. Analyzing the influence of the share of income taxes in fiscal revenues on GDP growth rate we obtain the coefficient of Pearson's linear correlation $r_{xy} = 0.12$. The obtained value of the coefficient means that there is no statistically significant relationship between

15 See more: SOLOW R.M.: A Contribution to the Theory of Economic Growth, "Quarterly Journal of Economics" No 71 (1)/1956; STANDFORD C.: Tax Compliance Costs: Measurement and Policy. Fiscal Publications, Bath 1995; STIGLITZ J.E.: Ekonomia sektora publicznego. PWN, Warszawa 2004, and next editions.; STIGLITZ J.E.: Economic of the public sector. Norton&Company, New York-London, 1988.

the share of income taxes in fiscal revenues and average annual GDP growth rate. Similar results are obtained when examining the discussed relationship annually in particular years (with an exception of the Netherlands). Analyzing the power and direction of the correlation between PIT and CIT separately and average annual economic growth rate, we also obtain statistically insignificant relationships. The obtained coefficients of correlation are respectively $r_{xy} = 0.05$ and $r_{xy} = 0.37$. Therefore the share of income taxes in the structure of budget fiscal revenues does not significantly affect the economic growth dynamics (either in the short or in the long term).

5. Determining the power and direction of the relationship between the share of social insurance contributions in total fiscal revenues and average annual GDP growth rate per capita we obtain the coefficient of correlation $r_{xy} = - 0.44$. This result proves the existence of negative relationship between the analyzed variables. The power of this relationship does not allow us to treat it as statistically significant, therefore the thesis of negative influence of high level of burden related to social insurance premiums on economic growth cannot be fully proved[16].
6. Combining in one group personal income tax and social insurance contributions, we obtain a category of incomes placing burden on work. These performance are complementary and determine the so-called tax wedge, that is labor costs (difference between labor costs – pay cost for the employer, and net pay – pay income), extremely important for the willingness of employers to create new jobs. Moreover, these terms are often used interchangeably. Examining the span between the share of particular fiscal tributes in the EU countries with their highest and lowest level, we can notice that in the EU countries the span of the PIT share indicator in total fiscal revenues was around 39% in 2012, while in case of social insurance contributions – 34%. In case of total burden of income from work,

16 WOŁOWIEC T. WRONA B.: Struktura systemu podatkowego a wzrost gospodarczy. WSE w Bochni, Zeszyty Naukowe No 6/2005; WOŁOWIEC T. SUSEŁ A.: Podatki dochodowe a funkcje polityki finansowej. /in/ NALEPKA A. UJWARY-GIL A. (ed.) Organizacje komercyjne i niekomercyjne wobec wzmożonej konkurencji oraz wzrastających wymagań konsumentów. Nowy Sącz: Wyższa Szkoła Biznesu – National-Louis University 2009.

the span amounted to 21%, therefore it is justified to examine the joint influence of tributes placing burden on labor costs on economic growth.

7. On the basis of the above data we obtained the coefficient of correlation r_{xy} = -0.55, which denotes the existence of statistically significant, negative relationship between the share of burden on income from work in fiscal revenues and the GDP growth rate. The coefficient of correlation calculated on this basis informs us that the average GDP growth rate in the analyzed years is explained in 29% by the share of burden placed on income from work in total fiscal revenues. The obtained results allow us to state that an increase of average share of burden on salaries in total fiscal revenues by 1% accounts for a decline in GDP per capita of 0.11%. Thus we can state that high level of burden on income from work negatively affects economic growth. High labor costs weaken the competitiveness of national economy, increase the tendency to escape into shadow economy and increase unemployment and, in consequence, hamper economic growth.
8. Examining the relationship (for years 1991-2012) between average annual level of unemployment (dependent variable) and average share of tributes placing burden on income from work, we will notice a strong relationship, assuming a three-year delayed reaction of the unemployment rate. With this assumption, the coefficient of correlation is r_{xy} = 0.93. An increase of average share of burden on pay (PIT and contributions) in total fiscal revenues of EU countries causes, assuming a three-year delay, an increase in unemployment rate of 1.46%[17].
9. The research also shows that each increase of tax and quasi-tax burden may translate into decline in economic growth rate. The research demonstrates that the most negative influence on economic growth, especially on unemployment level, is exerted by fiscal burden which determines the so-called labor costs. Interestingly, contrary to popular beliefs, the research did not prove existence of any correlation between the influence of burden placed on economy

17 WOŁOWIEC T. WRONA B.: Struktura systemu podatkowego a wzrost gospodarczy. WSE w Bochni, Zeszyty Naukowe No 6/2005

by income taxes and economic growth.

10. The obtained results of the research do not allow us without first conducting detailed microeconomic analyses (household prosperity level, structure of household expenses, price flexibility of demand, etc.) to propose a thesis that it is more beneficial for the social and economic prosperity to increase revenues from indirect taxation in the structure of budget tax revenues. Lowering the burden placed by income taxes requires offsetting the lost revenues with increased indirect taxes in order to maintain neutrality of revenues. We should remember, however, that this may cause some negative consequences.

First of all, increased actual rates of tax on goods and services may lead to unfavorable allocation of production towards goods with lower price flexibility of demand. Indirect taxes use consumers' usefulness preferences in order to satisfy financial needs of the budget, but the structure of the economy shifts towards goods with low flexibility of demand (basic goods). This may be a factor that weakens economic growth by reducing the market for more complex goods stimulating economy effectiveness.

Secondly, the price increase caused by increased rates of indirect taxes may lead to inflation processes. If prices of consumer goods with low flexibility of demand grow, their low flexibility will not cause demand decline (or only slight one). Producers will increase prices, which will lead to multiplier reaction of changes to other prices. Households will be burdened more with higher prices of basic goods and will limit their demand for more complex goods, thus lowering their prices and production. Producers limit their production and the general level of prices is determined by goods with low price flexibility of demand.

Thirdly, high (growing) rates of indirect taxes, through increased price level and inflation effect, lead to lowered actual incomes of the society, lowered demand, reduced production, and, as a result, weaker economic growth rate.

Fourthly, price growth, being an effect of growing rates of indirect taxes, in the long run generates pressure on increasing salaries in order not to weaken global demand in economy. This accounts for increased costs of salaries and costs of other means of production (raising their prices, their providers compensate the costs by transferring the tax burden). Thus we experience indirect burden of indirect taxes placed on enterprises on the

cost side.

Fifthly, price growth being an effect of increased burden of indirect taxes may lead to increased amount of money, according to the Irving Fischer exchange equation. This may account for the loss of balance in the monetary system.

Sixthly, indirect taxes, by placing burden on consumption expenses, mostly negatively affect poor households (in New Member States, they generate 80% of global demand), which violates the principle of taxation equality and equity. Seventhly, increased indirect taxation of basic goods leads to society stratification as economic inequalities build up in distribution of domestic product, especially with high share of households' expenditure on basic goods (this is a typical phenomenon for NMS, according to Engel's law). As the research shows, the assessment of the influence of income taxes on taxpayers' behavior, and in consequence on economic growth, requires taking into account the whole external environment, in which taxes are one of essential elements, though this elements does not function or determine economic growth on its own. The environment may hamper and stimulate economic growth and it is shaped independent of the taxpayers' will. We should always distinguish and analyze the following elements of the environment: state of the market (prices and currency exchange rates, stan and intensity of competition, payment hold-ups, state of business cycle, etc.); social and material infrastructure (banking and insurance system, education, corruption, administration, system of justice, etc.); fiscal and monetary policy of the state (customs duties, public aid, height of budget deficit, interest rate, taxes and tax reliefs, etc.) and complex regulatory and administrative influence of the state (legal regulations in particular sectors, regulations of labor market, EU sanitary norms, shaping production quality, etc.)[18].

In their pure form, income taxes do not influence the choice of socially beneficial structure of production and choice of production factors or on using technologies saving natural environment. Achieving these goals also requires application of the system of tax reliefs and exemptions. Income taxes do not affect the socially beneficial structure of consumption. We can

18 CASHIN P.: Government Spending, Taxes, and Economic Growth, IMF Staff Papers, 42(2)/1995, International Monetary Fund, Washington, D.C; Inventory of Taxes In the Member States of the European Union, Luxembourg, 2011; Inventory of Taxes In the Member States of the European Union, Luxembourg 2002-2012; JAMES S. NOBES CH.: The Economics of Taxation. Prentice Hall, 1995; JENSEN N.: Fiscal Policy and the Firm: Do Low Corporate Tax Rates Attract Multinational Corporations?, Department of Political Science, Washington University in St. Louis, St. Louis, 2007.

talk of appropriate structure of consumption only in case of personal income taxpayers. It does not seem possible to introduce reliefs and exemptions into the structure of this tax that would allow us to steer household expenses. Income taxes are of little use for such influence (these statements are vital both for understanding the specificity of income taxes and from the point of view of the analysis of the purpose and nature of preferences used in income taxes. Knowing the specific structure of these taxation forms, reliefs and exemptions – often given contradictory evaluations – may be justified by the implementation of socially or economically important goals).

Tax systems in the European Union countries are a product of long evolution and feature a lot of similarities. Similarities of Community states tax systems are the effect of the same factors affecting a particular tax policy and features of legal solutions in taxes. Such factors include: degree of economic development, social and economic systems and doctrines of economic policy, similar social, demographic and economic problems, Integration of the European economy, globalization of the world economy and principles of cooperation with international organizations. These factors are a result of similar economic and social structures, determined by similar cultural, historical, sociological and political factors. In practice, the shape of the tax system reflects the necessity to take into consideration interests of various social groups and a consequence of frequent changes in legal solutions, being an effect of political plays. As a result, the functioning tax systems are determined both by model and actual (mostly political) factors. The economic structure of the European Union countries is characterized by high level of exchange, combined with a certain tax system, whose features include: high level of tax burden, similar structure of tax systems (the core are personal and corporate income taxes and universal consumption and excise taxes), significant role of accounting and minor role of inheritance and donations tax and taxes on taxpayer's assets and real estate.

The tax doctrine formulates guidelines on what rational and effective tax policy the state should run. These postulates are determined in various ways, depending on adopted criteria concerning goals to be achieved thanks to tax policy. First we should ask about the functions of tax policy and then about norms and ways of their implementation. The primary goals of tax policy are presented as: efficiency in implementing the income function, efficiency in implementation of non-fiscal functions, equitable distribution of tax burden and lows costs of tax collection. Tax policy often quotes the doctrine, but in reality it may differ from it considerably.

Personal income taxes, due to their significance in national fiscal policy

should not be harmonized, due to their role in fiscal policy, as automatic stabilizers of business cycle. Using income taxes, we can affect taxpayers' behavior in various ways, through tax reliefs and exemptions as well as shape and structure of tax scale. It is necessary to realize national tax policy, whose specificity and economic, historical and social idiosyncrasies require freedom in constructing PIT[19].

Differentiated reward systems, various constructions of tax-free amounts, and, most of all, different level of salaries in the EU countries makes it impossible to conduct a rational and sensible harmonization of this form of taxation. Also the way of financing social insurance systems differs in the EU countries, which is reflected in labor costs structure. There are countries where social insurance contributions are small, but fiscal burden of PIT is huge (Denmark) and countries with opposite systems (Slovakia). This makes it impossible to harmonize this form of taxation, as it would require simultaneous reform of retirement systems and standardizing the level of fiscal burden, constituting the so-called tax wedge.

Personal income taxes also constitute the revenues of communes, districts and regions in EU countries. In practice this means that PIT is a differentiated construction as far as its role and importance in self-government own revenues are concerned. In some countries self-governments have their own income taxes, in others they have shares in PIT revenues transferred by central government. Local tax authorities have different entitlements, the local PIT has different levels of burden and legal construction. An attempt at harmonization would infringe the local authorities autonomy and would also require complex standardization of local governments' sources of revenue in all EU countries, which is impossible from the legal point of view and highly ineffective from the economic point of view (the author's own research). At the same time, PIT on the local level is a vital instrument of performing stimulating and regulating functions of taxation. Diverse specificity of local governments which is attributed to different development rate, historical and cultural conditions, makes it impossible to harmonize PIT[20].

19 See more: WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012; and ROGOZIŃSKA-MITRUT J. WOŁOWIEC T.: Impact of economic crisis on the management of companies. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION, 2011.

20 See more: LEA D.E.G. WEBLEY P. TARBY R.: The individual in the Economy, Oxford University Press, Oxford 1987; LEIBFRITZ L.: Taxation and Economic Performance. „Economics Department Working Papers", OECD, Paris 1997; LEIBFRITZ W. THORNTON J. BIBBEE A.: Taxation and Economic Performance, OECD Economics Department Working Paper No. 176/1999. Paris.

Personal income taxes do not affect the freedom of people and capital movement, therefore their harmonization is not justified from a legal point of view. The research shows that harmonization may cover some aspects of taxation, such as: avoidance of double taxation, incomes from savings or the issues of determining a joint taxation base, etc. (work is in progress, though it does not seem necessary).

Assuming that the strategic goal of a state should be to lower public taxes and at the same time to lower tax burden, as well as assuming tax principles that should constitute a foundation on which the personal income tax system should be built, we can formulate the following goals for reforming this tax: simplifying personal income taxation principles, limiting costs of the fiscal process, sustained both by the state and the taxpayer, limiting shadow economy, stimulating entrepreneurship and economic growth and enhancing Poland's tax competitiveness. Achievement of these goals would require introducing changes to current tax solutions. The shape of the necessary changes to personal income tax could be analyzed in several aspects, for example, its influence on economy, taxation base, tax nature and scope of applied tax reliefs.

Conclusions

The idea of a single economic and currency area is based on enabling the free flow of goods, capital and people (labour) while subject to a single currency regime. The idea deals effectively with currency risk, trade barriers, assures easy access to the labour market and provides opportunities for investing in all member states.

Full economic integration requires consideration of taxes as an important factor in the furthering of integration processes, since EU member states are tax nations, e.g. countries where budgetary incomes come primarily from taxation. EU member state tax systems are strongly diversified, due to individual developmental paths shaped by national history of various lengths, civilization development, culture, value systems, social and economic policy, that also define the state's current financial needs. Even in a single state, taxes cannot remain neutral towards economic and social processes. Therefore, the challenge faced by EU creators was not the outright neutralization of the impact that taxes had on the integration process, rather they worked towards limiting the negative consequences of overly diversified national tax systems. Gradual, long-term harmonisation emerged as a continent-wide process. During the development of the Treaty of Rome it was decided that, to assure a common market, it was enough

to harmonise indirect taxes and remove trade barriers as they were the prime inhibitors to the flow of goods and services. The harmonisation of direct (income) taxes was not considered as they were seen as not significantly affecting the single internal market. Problems tied to direct taxation became visible as integration proceeded, the EU grew, its citizens began to migrate, multinational enterprises increased in size and scope and their financial flows (capital and profit transfers between headquarters and subsidiaries in different EU countries) became seriously affected. Two major issues should be pointed out about European integration: union creators assumed that income taxes will be neutral towards integration processes and there will occur a natural convergence of tax systems of nations belonging to the economic and currency union.

It is a fact that the high and increasing international mobility of capital is not only a European but also a global phenomenon, associated with the ongoing globalization process. Thus, the current tax competition issue in Europe is part of a wider question of economic policy in a constantly changing and integrating world economy. Yet in view of EMU and EU enlargement, there is a question of how the present applied regulations in the field of EU taxation could be further developed so as to, on the one hand, face the increasing pressure of globalization and tax competition, and, on the other hand, remove another obstacle to free cross-border activity in the SEM (completing thus the integration of the market) and foster economic integration in Europe. A satisfactory reply presupposes the examination of at least two issues, namely: whether globalization and European economic integration are in some sense complementary or rival to each other, and whether tax competition in Europe subserves the integration or disintegration among EU states.

Although it may seem that globalization – as a process of global economic integration – includes European integration, the latter is a process of regional economic integration with objectives such as the avoidance of the "adverse effects" of globalization and international competition for members via the enlarged and more favorable economic space (which is institutionally assured), and the continuous deepening of economic integration, co-operation and socio-economic cohesion among member countries. It is obvious that, on the one hand, economic integration in Europe exhibits a much higher degree of integration and moves towards a deeper and more complete form of economic integration than the globalization process induces, and on the other hand, that the objectives of those two integration processes are quite different for a number of issues.

Particularly, this means that tax competition is not a problem for the globalization process itself, where the integration among the world's economies is much weaker. By contrast, within the European Union fiscal externalities arising from intra-EU tax competition are more significant. Furthermore, tax competition among EU states is in contrast with the objectives of European economic integration as indicated by official EU documents and treaties. The tax competition phenomenon and the recent trend of undercutting corporate tax rates in the EU have not been induced by the requirements of the European economic integration process. It is rather the result of the general trend of falling corporate taxation in the world economy.

From the preceding discussion it should become clear that the current EU tax system – for both indirect and direct taxation – constitutes a temporary solution and it is at transitional stage. In fact, the different tax systems in the SEM create a diverse and chaotic picture in the field of EU taxation, which cannot be in accordance with the current state of integration. On the other hand, the response to increasing economic integration and tax competition in Europe cannot be simply tax harmonization. As emphasized by the literature, in certain cases such a development would have negative welfare effects for some members and does not fully address the fiscal aspects of the integration process.

Personal income taxes are strongly differentiated in EU member states in terms of setting the size of tax brackets and taxable income level, where the differentiation focuses on different perceptions of what should constitute the basis of taxation, different tax scales, tax credits and allowable deductions. This process erodes the tax base. Most nations have a tax-free income that represents the expenditure for minimal biological survival. Tax credits and allowable deductions are not only differentiated country by country but also are subject to fluctuations due to a changing social and economic national environment, the preferences of ruling political parties, phase of the business cycle). EU member states have to consider the taxpayer's ability to pay (occurring jointly, separately or as selected elements) when creating different components of Personal Income Tax (PIT) policies, which may include:

- Setting a tax-free level of income that is offered to an unemployed spouse (e.g. in Slovakia), offered for each child being supported by the parents (e.g. Belgium, Czech Republic, Estonia, Holland, Germany, France, Greece, Slovenia, Lithuania).
- Joint taxation of married couples (e.g. in Ireland, where we can

find separate tax scales for single taxpayers and married couples).

- Specific and unique taxation of family income (France operates family quotient taxation that considers the number of children in the family).
- Constructions that permit the deduction of certain costs incurred while bringing up children (e.g. France) or even when supporting the family (e.g. Germany).
- Size and breadth of tax brackets.
- Systems defining the permissible and deductible expenses.
- Systems of preferences depending on the family's situation.

When analyzing tax credits and allowable deductions present in EU member states (as subject-specific credits, deductions from tax and tax base), four main categories can be identified[21]:

1. Compensation-type preferences: equivalency and compensation payouts for used tools, clothing, travel costs, refunding travel-to--work expenditures, etc.
2. Social-type preferences: deductions for social support for foster families, support for foster families, war veterans, victims of crime, handicapped, elderly, etc.
3. Stimulation-type (economic) preferences: aimed at stimulating the taxpayer to engage in specific activities or modifying his behaviours. We can include deductions for housing (development and renovation), preferential treatment of savings, purchasing of stocks and bonds, educating children, professional development, health expenditures and retirement fund investments.
4. Differentiated incomes, for example gambling wins, research grants, rewards for scientific activity, scholarships, contributions towards professional associations, etc.

So we should expect rational individuals to pursue tax-benefit-seeking

21 MESSERE K.C.: Tax Policy in OECD countries. Choices and Conflicts. IBFD Publications BV, Amsterdam 1998; MESSERE K.: Tax Policy in Europe: A Comparative Survey. „European Taxation" no 12/2001; OECD, Tax and Economy a Comparative Assessment of OECD Countries, „Tax Policy Studies", no 6/2001; OECD Revenue Statistics 1965-2013; KULICKI J.: Podatek dochodowy od osób fizycznych. Dom Wydawniczy ABC, Warszawa; KRAJEWSKA A.: Podatki, Unia Europejska, Polska, Kraje nadbałtyckie. Warszawa, PWE. 2004.

mobility of labour. In reality the extensiveness of this mobility would be dependent not only on “tax wedge” levels (share that PIT and national insurance consume from gross income) but also on level of wages, gross income levels, the nature of the labour market, quality of public services and infrastructure. Such rent-seeking tax migration would lead to increasing the supply of qualified labour in the market of the accepting country (with a competitive tax system and good labour market) while worsening the labour market situation in the country from which a worker has departed. As a result, countries keen to gain valuable workers could consider setting competitive tax rates to lure in new employees who would migrate and stay, contributing to national economic growth and pay their taxes in the accepting state. In this context harmonisation would be seen as a process of equalisation of life and employment conditions that would reduce the need for “tax wedge” oriented analyses by workers.

Currently, the top personal income tax (PIT) rate (2) amounts to 37.5%, on average, in the EU. This rate varies very substantially within the Union, ranging from a minimum of 10% in Bulgaria to a maximum of 56.4 in Sweden, as Denmark, which levied the highest PIT maximum rate until last year, has cut it to 51.5%. As a rule, as has been the case in recent years, the new Member States, with the exception of Slovenia and Hungary, display below-average top rates, while the highest rates are typical of Member States with the most elevated overall tax ratios, such as the Nordic countries, although the Netherlands show the third highest top personal income rate while ranking 15th in terms of the tax ratio (excluding social security contributions). The lowest rates are found in Bulgaria, the Czech Republic and Lithuania. In the latter two the overall tax ratio (excluding SSC’s) is among the lowest in the Union, which is however not really the case in Bulgaria.

As of 2010, these Member States comprise Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Romania, and Slovakia. As can be seen, all flat rate systems in the EU were introduced by new Member States, the latest two being Bulgaria and the Czech Republic in 2008. All of these show a lower than average revenue from the PIT, although the distance from the EU mean value is not very marked for the three Baltic States. In 2011 almost 50 % of the ‘ultimately received’ aggregate tax revenue in the EU-27 (including social contributions) was claimed by the central or federal government, more than 30 % accrued to the social security funds and around 10 % to local government. Less than 1 % of the revenues accrue to institutions of the European Union. There are considerable differences in structure from one Member State to another; for instance some Member states are federal

or grant region a very high degree of fiscal autonomy (Belgium, Germany, Austria, Spain). In the United Kingdom and Malta, the social security system is not separate from the central government level from an accounting point of view, whereas in Denmark most social security is financed through general taxation. The share of sub-federal revenue (defined as municipalities plus the state level where it exists) varies from less than 1 % to just over one third of the total. Sweden, Spain, Germany and Belgium in particular show high shares of total taxes received by the noncentral authorities. At the other end, this share is just below 1 % in Greece, while in Malta local government does not receive directly any tax funds. As for the share of revenue accruing to social security funds, the highest values in the EU are reported by France, Belgium and Slovakia. The amount of the ultimately received shares of revenue, however, is a very imperfect indicator of fiscal autonomy, as a given government level may be assigned revenue streams which it has little legal authority to increase or decrease. In several EU Member States decentralisation has been an important feature for several years already. Accordingly, data show that the share of total revenue accruing to state and local government has gradually increased. An exception of this trend has been registered in 2010, given that revenues were maintained mainly by proceeds from VAT and excise duties which are accrued mostly to the central government level. The share of total revenue accruing to state and local government increased again in 2011.

In most Member States, social contributions account for a much greater share of labour taxes than the personal income tax. On average, about two thirds of the overall ITR on labour consists of non-wage labour costs paid by both employees and employers. In Denmark, Ireland and the United Kingdom personal income taxes form a relatively large part of the total charges paid on labour income, while in countries like Poland and Greece less than 20 % of the ITR on labour consists of personal income tax. Between 2000 and 2011 the components of the ITR on labour changed markedly in several Member States. For the EU-27 personal income taxation of labour as well as employees' SSC and payroll taxes fell, while employers' SSC showed a very slight increase (all as a percentage of total labour costs). For the euro area, all components fell, with the main drop once again being in personal income taxation, and social contributions falling more sharply than in the EU-27 overall[22]. Looking at changes in single Member States, most of the

22 See more:M.Byczkowska, A.Kaczmarek, K. Czyrka, Współpraca przedsiębiorstw na pograniczu polsko-niemieckim w Euroregionie Pro Europa Viadrina (doświadczenia polskich przedsiębiorców) red. M. Byczkowska, A. Kaczmarek, K.Czykra, Współpraca przedsiębiorstw na pograniczu polsko-niemieckim w Euroregionie Pro Europa Viadrina

countries reduced their ITR; the change was to a large extent driven by reductions in PIT or employers' SSC. In many countries one notices a shift in the different components of the tax burden.

The discussion in the preceding sentences is based on the ITR[23] on labour, which gives a picture of the average tax burden on labour across all income classes. However, even at an unchanged overall tax level, the burden of taxation may be shifted between high and low-income taxpayers resulting not only in redistribution but notably also in a different impact on employment. In particular, over the last decade policymakers have often resorted to cuts in labour taxes that are targeted to the bottom end of the wage scale in order to boost employability of low-skilled workers. To evaluate progress in this direction, this section looks at the evolution of the tax wedge — i.e. the difference between labour costs to the employer and the corresponding net take-home pay of the employee. We can find out a long and steady downward trend indicating a clear impact from targeted cuts in taxes

and social contributions more intensively at the beginning and towards the end of the decade.

While the tax wedge is lower in 19 Member States in 2012 compared to 2000, the reductions appear to be particularly large in the Netherlands, Sweden, Bulgaria, Finland, Cyprus and Slovakia. Among the countries that have increased the tax wedge in this period, France shows the biggest increase with 3.4 percentage points Overall during the 1996–2009 period, the EU average tax burden on labour was on a downward trend, but both indicators have started to rise again since then. Up to 2000 the ITR on labour increased, whereas the tax wedge started to decrease markedly already from 1998. The gap between the two indicators opened up indicating that targeted tax cuts were playing a growing role. In the second period, from 2001–2008, the two series run roughly parallel, both showing a downward trend. However, since 2009 both indicators have picked up after several years of decline.

A theoretical analysis of the effects of tax differentiation can occur on several axes, including[24]:

1. 1) Impact of PIT on costs of labour. High taxes increase labour

(doświadczenia polskich przedsiębiorstw), Wyd. PWSZ w Gorzowie Wlkp., Gorzów Wlkp. 2011, s.1-49.

23 The ITR on labour is calculated as the ratio of taxes and social security contributions on employed labour income to total compensation of employees and payroll taxes.

24 See more: WOŁOWIEC T. SOBOŃ J. ROGOZIŃSKA-MITRUT: Some issues of personal income taxation. Winnica: INSTITUTE OF UKRAINIAN – POLISH COOPERATION 2012.

costs since after-tax income (disposable) is low and thus causes pay-increase demands from the workers and this in turn complicates the company's competitive standing and affects its profitability (when compared to companies operating in other, more beneficial tax environments).

2. Taxes as a burden. They force a defensive response from the taxpayer in the form of seeking opportunities to transfer the burden onto other entities. Centuries long observation of taxpayer reactions to tax burdens show that, even if desirable, burden shifting is much easier in the case of indirect taxes than direct ones (in this case the most common technique involves limiting economic activity).
3. Tax burden transferability is different for employees and employers. Increased labour costs will affect production costs and this affects final product/service prices. Opportunities open to the employer will depend on the type of the good/service under taxation and the state of the market (competition), which is defined through elasticity of demand. Inelasticity of demand for a good will assure easier transfer of tax burdens by the employer onto the client. A second possible reaction is to transfer the burden onto the employees by lowering their wages. Opportunities here will be defined by the current state of the labour market, its openness, level of unemployment and elasticity of labour supply.
4. Measuring the transferability of the tax burden. The process is difficult even in the case of a closed economy because the effects of increasing taxes can be hidden in prices, non-wage production costs, producer profitability. These difficulties are multiplied in an open economy where the mechanism of transferring the tax burden affects the society and economy of a different nation. In a theoretical sense, "tax dumping"[25] leads to a redistribution of income between different societies as it assures that part of the income is transferred to nations with lower taxes through transfer pricing or through the transfer of company operations to locations with favourable

25 The term "tax dumping" was popularised by Chancellor Gerhard Schroeder in 2004, when he challenged new EU member states and their tax reforms that were aimed, as Schroeder claimed, at affecting fair competition policies in the Union by offering good operating conditions for companies form the "old" Europe.

tax regimes. The impact on nations not operating "tax dumping" policies is a need to increase tax rates to maintain governmental revenues (for those taxpayers that remain) or reduce governmental expenditures (politically difficult) or increase national debt (finding lenders willing to fund continued expenditures)[26].

Both tax rate harmonisation and tax rate competitiveness require additional consideration:

1. Impact of PIT rate harmonisation upon the state budget and possible imbalance of public finances (harmonisation worsening national budgets, e.g. through downward integration of tax rates).
2. Impact of labour mobility upon the nation's economy (income migration further enhanced by PIT rates).
3. Impact of changes in the tax system, which affect the ratios of: indirect-direct taxes, CIT-PIT, when they are intended to draw in foreign investments.

Economic aims of tax harmonisation may be unachievable due to legal reasons, since a tax is not only an economic category but also a legal one, and its legal side is affected by:

1. Relationship between national and Community law, and when considering the supremacy of EU law over national rules, many issues emerge (e.g. conflicting regulations, different interpretations).
2. Problems of applying (and in what measures) unlimited tax duty[27] in one country compared to applying unlimited tax duty in one country with a limited duty in the second country and, finally, how to apply unlimited tax duties in both countries.
3. How to formulate and agree upon treaties on avoiding double taxation (not only achieving consensus between nations but also following local political patterns, taxation trends).
4. Problems in whether to collect the tax in country of residence or non-residence and in what proportions.

26 On 26th May 2004, Ministers of Finance from Germany and France, worried that their countries would suffer the most from tax-benefit-seeking company migration, proposed the first unification of corporate (CIT) tax rates: minimal rates, formalising the methods of calculating incomes, profits, defining expenses.

27 Unlimited tax duty applies to those residing in a country for more than 183 days of a tax year, while limited tax duty is applied to those who spend less than 183 days.

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