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JOANNA DZIAŁO*

Tax Competition Or Tax Coordination? What Is Better For The European Union?

Abstract

Tax competition is defined as the use of tax policy that will allow to maintain or increase the attractiveness of a particular territory for business location. Tax competition is used especially by the relatively under-developed countries, as foreign capital inflow gives them the possibility to implement modern technology, new management methods, or to increase exports. One of the effects of tax competition is the formation of tax havens, i.e. countries or territories offering preferential tax rates in order to gain capital from abroad. A comparative analysis of the income tax rates in the EU countries and certain tax havens shows that despite the progressive reduction of the rates of these taxes in the EU, the phenomenon of tax competition is still very strong, and the position of tax havens as countries with relatively low or very low taxes seems to be unthreatened. The question arises whether tax competition is a real problem for the EU Member States and if there exist arguments for tax harmonization, or at least tax coordination within the EU countries. The discussion in this paper suggests that the arguments for tax coordination in the EU are not yet strong enough. However, both tax competition and tax coordination have their supporters and opponents.

Keywords*: tax competition, tax havens, tax harmonization, tax coordination*

* Ph.D., Professor at the University of Lodz, Faculty of Economics and Sociology, Department of Economic Mechanismus

1. Introduction

The emergence and development of tax havens is inextricably linked with the phenomenon of globalisation, although the origins of their creation date back to antiquity; to the sixth century BC when, for example, the Islands of Rhodes and Delos were considered as tax havens. Nowadays, it is difficult to imagine international tax planning without considering such an important element as tax havens. Their tax policy is used by international corporations, as well as by less significant companies that operate globally, and even by individuals.

Tax havens are, therefore, an international phenomenon, and their existence is primarily associated with the presence of international tax competition, which, generally speaking, means differentiated tax rates imposed by different tax authorities. By lowering tax rates, countries often try to stimulate their economies and increase their investment attractiveness (mainly for businesses with foreign capital). Thus, international tax competition contributes to maximising benefits, especially for legal persons. Hence prohibitive tax rates (primarily CIT), especially in highly developed countries, appear to be the impetus for the creation of tax havens.

The aim of this paper is to conduct a comparative analysis of income tax rates in the EU countries and certain tax havens. The author argues that the observed process of reducing the rates of PIT and CIT in the EU countries is not significant as a factor that may increase the tax attractiveness of these countries. Moreover, the author formulates the question whether tax competition is a real problem for the EU Member States and seeks arguments for tax coordination within the EU countries.

2. Tax competition as a significant cause of the creation of tax havens

The earliest articles dealing with the consequences of uncoordinated tax policies by different political jurisdictions were presented by Tiebout (Tiebout 1956, pp. 416-424) and then by White (White 1975, p. 73). They both put relatively high emphasis on the “voting with one’s feet” rationale. They argue that tax autonomy allows local governments to offer citizens and firms different tax and expenditure bundles. As citizens (and firms) can choose jurisdictions, tax competition leads to an efficient outcome where different preferences of economic units regarding public expenditure are translated into different tax rates.

Recent papers argue instead that jurisdictions engaging in tax competition end up providing too few public goods: in order to attract mobile production factors they set lower than optimal tax rates (Bradford, Oates 1971, pp. 416-439; Oates 1972, p. 85). It is, however, unclear whether a reduction in the size of the public sector due to tax competition is necessarily bad. According to Brennan and Buchanan governments are "Leviathans" whose primary interest is to maximize tax revenues as such. They argue that governments do not tax to provide essential public goods but because higher tax revenues enhance the power and prestige of government officials (Brennan, Buchanan 1980, p. 18).

On the other hand, the papers by Wilson or Zodrow and Mieszkowski adhere to the notion of benevolent governments (Wilson 1986, pp. 296–315; Zodrow, Mieszkowski pp. 356–370). These authors predict a shift of taxes from mobile capital to immobile factors of production and hence a "race to the bottom" in the taxation of mobile factors. The prevailing view that tax competition is harmful and leads to sub-optimally low tax rates on the mobile production factors was supported by, among others: Wilson, Bucovetsky, and Wildasin (Wilson 1999, pp. 269–304; Bucovetsky 1991, pp. 167–181; Wildasin 1998, pp. 229–240).

A further strand of the literature on tax competition is built on the so-called New Economic Geography models. In this framework, certain jurisdictions have agglomeration advantages. Because of these advantages, firms that settle in these jurisdictions can expect higher profits. Therefore, jurisdictions that offer more agglomeration advantages can afford to levy higher tax rates (Ludema, Wooton 2000, pp. 331–357; Baldwin, Krugman 2004, pp. 1–23).

Finally, a branch of the literature on international tax competition is concerned with the consequences of tax coordination. Coordination, if it were possible and costless, would result in the optimal outcome. However, due to various limits to coordination it is not clear whether tax coordination improves welfare on average (Wang 1999, pp. 974–981; Peralta, Ypersele 2006, pp. 708–726; Konrad 2009, pp. 109–111).

Generally, tax competition is defined as the use, by entities that participate in it, of such activities within the tax policy that will allow to maintain or increase the attractiveness of a particular territory as a convenient business location. This competition may take place within a single country (between regions, due to a better match of the tax burden to the needs of a particular region), or may take place between countries (Oręziak 2007, p. 86).

The process of international tax competition concerns the introduction of additional legal norms to the legislation in force in a given country. These norms favour reducing the tax burden for foreign investors, thus attracting their capital. The issue of international tax competition refers to two main aspects:

- the situation whereby, by not taxing the interests of their residents, individual countries seek to make the investment of funds at home more attractive;
- attempts to obtain external capital through low tax rates and other tax preferences.

The first aspect relates primarily to natural persons making portfolio investments which enable tax evasion. The second includes direct investments of multinational corporations that enable tax avoidance (Lipowski 2004, p. 98). Economists present diverse opinions on international tax competition, as there are many premises concerning both the favourable and unfavourable aspects of this phenomenon. Proponents of tax competition, in order to prove the validity of their views, put forward the following arguments:

- due to reduced tax rates, tax competition forces the rationalising of public expenditure;
- lower taxes affect the development of entrepreneurship and economic recovery through an increase in profits generated by companies;
- tax competition limits the ability of politicians to intervene in the economy, as without the pressure to reduce taxes, they would have a greater ability to raise tax rates;
- reduced tax rates can be seen as an inducement for foreign investors in the countries with poorly developed infrastructure, less-educated workforce, or an unfavourable location;
- the effect of tax competition is the inflow of capital from abroad, which increases chances for economic growth of the country and as a result reduces disparities between more and less developed countries.

Opponents argue that tax competition is associated with the following dangers:

- a lower level of public revenue contributes to the reduced supply of public goods and as a result to reducing the redistributive function of the state budget;
- the government may seek to compensate for losses caused by lower revenues to the budget by increasing the tax burden in relation to less mobile factors of production, or by increasing indirect tax rates, which may reduce consumer demand;
- reduced spending on infrastructure, research and development or education may weaken the long-term competitiveness of the economy;
- tax reduction is not the only way to increase the attractiveness of a country. It can also be done, for example, through modernisation of technical infrastructure, a better educated population, higher expenditures on research and development or efficient functioning of public administration;
- investing capital in a country with more favourable tax rates contributes to the loss of hypothetical budget revenues in the home country, which means that

investors behave as so-called "free riders", since despite their use of public goods in the home country they do not participate in their co-financing (Krajewska 2012, p. 144).

The analysis of tax competition in this paper will mainly focus on the issue of its harmfulness. It must be emphasised, however, that the belief in harmful competitive activities of a foreign country in relation to tax is mainly due to subjective criteria on the part of the country issuing an opinion on the foreign legal system. These criteria include, among others:

- the level of effective tax burden in the assessed legislation;
- the structure of the assessed tax legislation;
- the level of the development of the given country;
- economic conditions.

It should be noted that the criteria by which it is recognised that a foreign state engages in harmful tax competition may vary in different countries. (Nawrot 2011, p. 48).

Any activity of a foreign and independent state apparatus which disrupts the conduct of fiscal policy in a given country is perceived as harmful tax competition. These actions result in the outflow of capital and labour from the territory of this country, as its taxpayers are urged to start and run a business in the area of foreign tax authority. At the summit in Brussels in 1997, the European Commission defined the concept of harmful tax competition as "a level of freedom in the field of tax law which contributes to the emergence of significant differences between the taxation of domestic and foreign investment and even to the exemption of the latter from tax in some EU countries" (Hybka 2002, p. 8).

The phenomenon of harmful tax competition has drawn a response from international organisations such as the OECD and the EU. Their response has focused on an attempt to reduce this phenomenon and its negative effects. The result of the actions taken in this regard is the development of a variety of reports whose primary purpose is to stop unfair tax competition.[1] The following are examples of such documents: the OECD reports entitled "*Harmful Tax Competition: An Emerging Global Issue*" of 1998 and "*Progress in Identifying and Eliminating Harmful Tax Practises*" of 2000, or the EU document of 1998 "*Code of Conduct on Business Taxation*".

[1] Due to the limited volume of the paper, the contents of these documents will not be the subject of analysis.

3. Tax havens – origins, nature, types

The prevalence of tax havens is caused by many factors.[2] There is no doubt, however, that international tax competition has played and still plays, a major role in the creation and expansion of tax havens. In order to obtain foreign investors, and hence their capital, countries decide to use various preferential tax solutions. It is often the only effective solution to ensure national economic growth and provide the country's residents with better living conditions. Thus tax havens are usually small territories or countries that do not have valuable natural resources and have a weak internal market.

According to the OECD definition, a tax haven is an area which, by the use of its tax apparatus, allows foreign entities to reduce their tax obligations in their home country. Moreover, the OECD has also listed the criteria by which it can be determined whether or not a given tax system is considered a tax haven. These criteria mainly include such aspects as (*Harmful Tax Competition: An Emerging Global Issue* 1998, p. 44):

- lack of or abnormally low level of tax burden;
- no mandatory, transparent and clear regulations, which allows certain entities to make use of specific tax privileges;
- uneven treatment of income generated from sources located in a particular country compared to profits "transferred" to this country, with the latter guaranteed tax privileges;
- no obligation to conduct business in the area of tax haven;
- lack of effective exchange of information resulting from the reluctance of the administration of a particular country to participate in the exchange of tax information and to waive provisions on banking secrecy.

In addition to the above-presented criteria affecting the competitiveness of a specific area as a tax haven, a few other aspects are worth mentioning. One of these aspects is the economic and political stability of a specific area, since during the implementation of foreign investment such threats as the possibility of an armed conflict, expropriation, nationalisation, a natural disaster or a collapse of the country's economy are particularly important. The political structure of the state, the implemented economic policy, the system of government, the social culture and the operation of (or lack of) terrorist organisations are also important. Favourable legislation also affects the attractiveness of tax havens as may guarantee simplified procedures, devoid of unnecessary red tape, in the process of starting and running a business. Minimal formalisation and the lack of

[2] Due to the limited volume of the paper, these factors will not be presented here.

mandatory physical presence in a given territory provide a significant level of comfort (Głuchowski 2006, pp. 166-167). An advanced infrastructure, as broadly understood, is another important factor influencing the choice of a tax haven by a taxpayer. The level of medical care, housing conditions or privacy – understood as a lack of obligation to divulge information relating to one's property, income and expenses – are also of importance for natural persons. Inflation and the operation of free trade zones also have an impact on the choice of an appropriate tax haven (Głuchowski 1998, pp. 114-115).

Tax havens can be classified in various ways, depending on the adopted criterion. One of the classifications, the most traditional one, concerns the tax rates in force in a particular country. According to its assumptions tax havens are divided into two main categories (Kuchciak 2012, pp. 69-70).

- **No-tax havens,** that is, countries that do not impose any tax obligations (e.g.: Nauru, Bermuda, Cayman Islands). This group of countries is also referred to as neutral tax jurisdictions. These countries do not impose direct or indirect taxes on natural and legal persons. Budgetary revenues in such countries come from customs duties, property taxes or various fees. In addition, this group includes countries respecting the principle of territoriality, which advocates imposing taxes on the income from sources located exclusively in its territory. Thus, income of foreign origin is tax-exempt.
- **Low-tax havens**, that is, countries that impose low taxes (e.g.: the Bahamas, Andorra), although the recognition of specific tax rates as low is often relative and ambiguous. These countries do not relinquish entirely the revenue gained through taxes, although sometimes these revenues are merely symbolic.

These criteria in the division of tax havens is not exhaustive as there are many factors that help to differentiate different groups of tax havens, such as the tax status of business entities operating in the form of companies, the size of the territory occupied by tax havens, their political status, or their geographical location (Lipowski 2004, pp. 156-157).

Many countries and international organisations draw up lists of tax havens. The custom of developing such lists is spreading, especially among states and international organisations that seek to reduce tax avoidance. Their disadvantage, however, lies in their subjectivism, which results in the appearance of differences in the lists drawn up by certain countries and organisations.

The areas using harmful tax competition are mainly the underdeveloped island areas located mostly in the Sargasso Sea, between North and South America. Several of these areas are also situated in Europe and in the Pacific Ocean (east of the Australian coast). These locations are not accidental since the developed countries from which, thanks to the reduced tax burden, many investors can be attracted are located relatively close to the tax havens. Interestingly, countries classified as tax havens comprise only 1.2% of the world's population and only 3% of the global GDP. They accumulate, however, nearly 26% of assets and 31% of profits made by American corporations (Szafoni 2011, pp. 116-118).

4. Income tax rates in the EU countries and selected tax havens

The subject of this part of the paper is a comparative analysis of rates of personal income tax (PIT) and corporate income tax (CIT) in the EU and in selected tax havens. Table 1 shows how PIT and CIT rates have developed over the last 14 years in the EU countries. In the year 2000, the average rate of PIT amounted to nearly 45%. The countries of Belgium, Denmark, the Netherlands and France imposed the highest (approx. 60%) rate. The countries that were not yet members of the EU at the time – Estonia and Latvia – had the lowest rates of this tax (approx. 25%). Over the years, the majority of the member states have noticeably reduced, albeit more or less, the rate of personal income tax. As a result, the average rate of personal income tax in the EU in 2014 is 38.6%. The largest reductions in this period have been introduced by Bulgaria, Lithuania, Romania and Hungary, which have decreased their rates respectively by 30, 18, 24 and 28 percentage points, as a result reaching a level of PIT even below 20%. The PIT tax burden varies significantly between the member states, as along with to the above-mentioned countries with relatively low rates of PIT there are also countries with income tax rates in the upper bracket in excess of 50% (e.g.: Denmark, Portugal and Sweden).

In the case of corporate income tax rate, in 2000 the rates ranged from 24% (Ireland and Lithuania) to almost 52% (Germany). The average rate of the tax was then 32%, but in subsequent years there have been constant reductions, which has resulted in a rate of slightly more than 22.5% in 2014. Bulgaria and Germany have introduced the largest reductions, lowering their CIT rates by up to 22 percentage points. Particularly favourable tax rates for corporate income tax are found in Bulgaria, Cyprus, Ireland, Lithuania and Latvia. Based on the data presented in Table 1, it can also be observed that lower corporate tax rates are found primarily in the countries that joined the EU in 2004 or in subsequent years.

Table 1. Top rates of PIT and CIT in the EU countries in the years 2000-2014 (%)

Country	PIT rates				CIT rates			
	2000	**2008**	**2014**	**2000-2014 difference (percentage points)**	**2000**	**2008**	**2014**	**2000-2014 difference (percentage points)**
Austria	50	50	50	0	34	25	25	-9
Belgium	60.6	53.7	50	-10.6	40.2	34	34	-6.2
Bulgaria	40	10	10	-30	32.5	10	10	-22.5
Croatia	45	45	40	-5	35	20	20	-15
Cyprus	40	30	38.5	-1.5	29	10	12,5	-16.5
Denmark	62.9	62.3	55.6	-7.3	32	25	24,5	-7.5
Estonia	26	21	21	-5	26	21	21	-5
Finland	54	50.1	51.3	-2.7	29	26	20	-9
France	59	45.8	50.2	-8.8	37.8	34.4	36,1	-1.7
Greece	45	40	46	+1	40	35	26	-14
Spain	48	43	52	+4	35	30	30	-5
Netherlands	60	52	52	-8	35	25.5	25	-10
Ireland	44	41	41	-3	24	12,5	12,5	-11.5
Lithuania	33	24	15	-18	24	15	15	-9
Luxembourg	47.2	39	43.6	-3.6	37.5	29.6	29,2	-8.3
Latvia	25	25	24	-1	25	15	15	-10
Malta	35	35	29	-6	35	35	35	0
Germany	53.8	47.5	47.5	-6.3	51.6	29.8	29,8	-21.8
Poland	40	40	32	-8	30	19	19	-11
Portugal	40	42	53	+13	35.2	26.5	23	-12.2
Czech Republic	32	15	22	-10	31	21	19	-12
Romania	40	16	16	-24	25	16	16	-9
Sweden	51.5	56.4	57	+5.5	28	28	22	-6
Slovakia	42	19	25	-17	29	19	22	-7
Slovenia	50	41	50	0	25	22	17	-8
Hungary	44	40	16	-28	19.6	21.3	19	-0.6
UK	40	40	45	-5	30	30	23	-7
Italy	45.9	44.9	47.3	+1.4	41.3	31.4	31,4	-9.9
EU -28 average	**44.782**	**38.167**	**38.571**	**-6.85**	**32.025**	**23.821**	**22.571**	**-9.453**

Source: based on *Taxation trends in the European Union,* Eurostat, Statistical Book, 2013 edition.

The analysis of income tax rates in tax havens encompasses only some of these territories due to the difficulties in accessing to data. The tax havens include: Andorra, Bahrain, Bermuda, Gibraltar, Hong Kong, Cayman Islands, Liechtenstein, Macao, Mauritius, Panama and Vanuatu. Detailed information concerning the income tax rates in these selected tax havens is presented in Table 2.

Table 2. Tax rates in selected tax havens in 2014

Country or territory	**PIT rate**	**CIT rate**	**Other taxes on natural and legal persons**	**Withholding tax[3]**
Andorra	- 10%	- the rate is 10%, even though the taxpayer may apply for the reduction of 80% of the tax base	- capital gains are treated as ordinary taxable business income and are taxed at the rate of 10% - dividends received from resident and non-resident entities are exempt from tax if certain requirements are met - no capital and payroll tax - the employer provides 14.5% of gross pay for the employee's social security - no capital, property, inheritance and estate tax for natural persons - employees provide 5.5% of their gross salary for social security	- 10% - the overall rate of taxation of non-residents' incomes - dividends paid to non-residents are exempt from tax - interests paid to non-residents are exempt from tax - the withholding tax on royalties of non-residents is 5%
Bahrain	- 0%	-0% - 46% only for oil companies, the tax levied on the net profit	- no property, capital and payroll tax	- no withholding tax on dividends, interest, royalties
Bermuda	- 0%	- 0%	- no dividend and capital gains tax	- no taxation of dividends, interest, royalties

[3] Tax levied in the case of cross-border payments in which the entity receiving the income (the taxpayer) has a different tax residence than the entity making the payment (the resident of the country where the sources of income are located).

Gibraltar	- 15-20%, depending on the amount of income (the vast majority of taxpayers have such a rate)	- 10% standard rate - 20% paid only by companies that abuse their dominant position and by public utility institutions	- no tax on sales, capital gains, inheritances and gifts - no corporate tax on capital, payroll and property	- no withholding tax on dividends, interest, royalties
Hong Kong	- rates from 2% to 17%	- 16.5% overall rate - 15% rate applies only to companies without legal personality	- tax on capital imposed on legal persons was abolished on 1st June 2012 - corporate capital gains are not taxed, but profits from the sale of assets may be subject to tax if the disposal of shares constitutes a commercial transaction - natural and legal persons that own properties are subject to property tax on income from rental property in the amount of 15% of the net value of the property specified by the lease - no capital tax from natural persons	- no withholding tax on interest payments
Cayman Islands	- 0%	- 0%	- no tax	- no withholding tax
Liechtenstein	- 3.23% minimum rate – 17% maximum rate	- 12.5% flat tax	- no capital, payroll and property tax (legal persons) - the employer is obliged to pay about 50% of the employee’s social security	- no withholding tax on dividends from 1st January, 2001
Macao	- 5%, 7%, 12%	- rates from 9% to 12%	- no capital and payroll tax (legal persons) - a property tax from legal and natural persons of 6% or 10% - no capital tax from natural persons	- no withholding tax on dividends, interest, royalties

Mauritius	- 15%	- 7.5%, 10%, 15%	- no capital, payroll and property tax (legal persons) - the employer pays 6% of the monthly basic salary of the employee for social security contributions - no capital and property tax (natural persons) - employees pay social insurance contributions at the amount of 3% of their monthly salary	- no withholding tax on dividends, - 10% is generally the rate on interest, - 15% is the tax rate on royalties, - 0% rate applies to certain non-residents
Panama	- 15%, 25%	- 4.75% of net income – 25% of gross income,	- no capital tax - a property tax is levied depending on the location of the property – from 1.75% to 2.1% of its value (natural and legal persons) - the employer provides 13.5% of the monthly total salary of the employee for social security contributions, the employee's contribution is 9.75% - no capital tax from natural persons	- dividends from registered shares paid to non-residents are subject to 5% or 10% rate of withholding tax - 12.5% is the rate of taxation of royalties of non-residents - 12.5% is the rate on interest of non-residents
Vanuatu	- 0%	- 0%	- no property and capital gains tax	- no withholding tax

Source: the author's own compilation based on reports of KPMG, PwC, Deloitte, 2013.

Based on the data listed in Table 2, the tax havens can be divided into several groups:

- havens that do not enforce any taxes (e.g.: Bermuda, Cayman Islands, Vanuatu);
- havens that in principle impose income taxes, both on domestic and foreign entities, but offer the advantage of an exemption or relief for certain, specific forms of activities (e.g. Andorra, Panama);
- havens that have favourable agreements regarding the avoidance of double taxation and use very moderate tax rates (e.g.: Macao, Mauritius).

Comparative analysis of the income tax rates in the EU countries and selected tax havens shows that, despite the progressive reduction of the rates of these taxes in the EU, the phenomenon of tax competition is still very strong and the position of tax havens as countries offering relatively low or even very low taxes seems to be unthreatened. Activities of international organisations aimed at reducing the incidence of harmful tax competition have shown only moderate effects. Since this situation is not likely to change radically in the upcoming years, relatively highly developed countries should increase their efforts to intensify competition for capital through the use of factors other than low taxes, such as political stability, relatively low labour costs, transparent and unambiguous legislation supporting the development of business, simple procedures to establish a business, promoting the development of entrepreneurship, good cooperation with local and central authorities, the development of road infrastructure and telecommunications/Internet, highly skilled labour force or quality of land for investments.

5. Is tax coordination a good solution for the European Union?

The above-presented comparative analysis of tax rates in the EU and some tax havens proves that there exist significant differences in the income tax rates in both groups of countries. Additionally, there also exist differences between PIT and CIT tax rates among particular EU Member States. The question then arises: Is tax competition a real problem for Europe? In order to answer this question, two separate issues must be addressed.

First, the question of whether tax revenues really suffer because of tax competition. Empirical studies that explore tax competition at the international level do not indicate that tax competition leads to large revenue losses. Even if (effective) tax rates seem to have declined in the last few years in European countries, revenues have remained largely stable (Devereux, Loretz 2012, p. 35). But even if tax competition were to lead to revenue losses, it is not obvious how to evaluate such consequences. Much depends on whether governments are perceived as benevolent or as Leviathans. If governments are benevolent, the negative features of tax competition will prevail over the positive ones. But if they are not, then it is not clear that cuts in tax rates (a race to the bottom) is undesirable. In reality, some governments will conform more to the ideal of benevolence than others. Whether the European Union as a whole will benefit from tax coordination is thus unclear for this reason alone (Baskaran, Lopes da Fonseca 2013, pp. 22-47).

Second, even if governments are benevolent and tax competition is truly a threat to public budgets, it can be questioned whether tax coordination is the appropriate answer. Although corporate tax coordination, including tax rate harmonization, has been the subject of intense discussion in the European Union for many years, EU member states still operate with independent and significantly varied corporate income tax systems. Interest in tax coordination has increased recently, however, prompted in part by fears that tax competition among the economically integrated EU nations will over time significantly reduce the level of capital income taxation (Zodrow 2003).[4] Another reason for increasing interest in tax coordination is that today the EU Member States are facing huge challenges in their efforts to consolidate their public finances. Consolidation by cutting expenditure is of course essential, but this will not be enough given the magnitude of the deficits. Therefore raising taxes should also be considered. In this context, Member States have to care for the quality of their tax systems. They need to define how best to raise revenues while providing the right incentives for employment, innovation and long-term investment. They must also ensure that their tax reforms are resistant to economic fluctuations. The latest EU effort to coordinate tax systems is included in the "Euro Plus Pact". The Pact rightly indicates that, in order to foster employment and economic growth and to consolidate public finance, particular attention should be given to tax reforms.[5]

However, tax policy cannot be seen only as a tool for coordinated budget adjustment. Tax coordination is also important for the competitiveness of European companies. To improve the business environment, tax obstacles should be abolished in the single market The European Commission believes that the only systematic way to reduce tax obstacles which exist for companies operating in more than one Member State is to provide companies with a consolidated corporate tax base for their EU-wide activities–The Common Consolidated Corporate Tax Base (CCCTB). It is a single set of rules that companies operating within the EU could use to calculate their taxable profits. As a consequence, a company would have to comply with just one EU system for computing its taxable income, rather than different rules in each Member State in which they operate (European Council 2011).

One should keep in mind, however, that not all countries will benefit equally from coordination. Theoretical models show that the gains of coordination will be spread unevenly; some jurisdictions might even be worse off. Indeed, the fact that there would be losers to tax coordination might be the reason why the EU has hitherto found it difficult to make much progress in this area. It can also be questioned whether tax coordination within the EU is the best way if there remains the possibility of tax competition with other regions of the world. Sorensen attempts

[4] Under the most extreme scenario, tax competition leads to a “race to the bottom” in which all countries abandon capital income taxation and rely solely on the taxation of labour income and consumption.

[5] The Euro Plus Pact was adopted at a European Council meeting on 25 March 2011. All the euro area countries and the other EU countries except the Czech Republic, Hungary, Sweden and the United Kingdom signed up to the Pact. The four goals of the Pact are: fostering competitiveness, fostering employment, contributing to the sustainability of public finances, reinforcing financial stability. An additional fifth issue is tax policy coordination. As to tax policy coordination, member states "commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, the avoidance of harmful practices and proposals to fight against fraud and tax evasion.”

to quantify the welfare gains from tax coordination within a group of countries and finds that such gains are modest relative to those that could be obtained if taxes were harmonized world-wide (Sorensen 2004, pp. 1187–1214).

Another disadvantage of tax coordination could be that national autonomy over a fiscal policy area would be effectively abolished. Uniform fiscal policy would probably have a positive impact on the functioning of the EU economy as a whole, but it would take place at the expense of the economic condition of particular Member States. They would be forced to comply with an imposed fiscal policy that might be contrary to that considered necessary at a given time in a given economy.

On the other hand, many economists believe that the bad condition of public finances in the EU countries is to some extent conditioned by the lack of a common fiscal policy. Greater coordination of fiscal policy among the EU countries appears to be an important prerequisite for reducing the negative impact of the economic crisis on their functioning. Analysis of data on fiscal policy pursued by the EU countries in the past two decades indicates that it was generally expansionary, which resulted in a significant increase in the public debt of these countries in relation to GDP. It is widely believed that this was a significant factor in the increase in inflation and forced central banks to pursue restrictive monetary policies (Skiba 2011, p. 37).

It seems that the need for substantial tax coordination in the EU is rather weak. This, however, should not be taken to imply that there is no room at all for tax coordination in the EU. Some degree of harmonization in national tax laws would certainly be beneficial. Harmonized tax bases will lower administrative costs and thus benefit both firms and tax administrations. Joint action against tax loopholes and other instruments to evade taxes would be beneficial as well. As long as such benefits arising from tax coordination exist, the debate about the best way forward will and should continue.

6. Conclusions

The process of globalisation is manifested in, *inter alia*, the liberalisation of capital transfer and in the lowering of transaction costs, which in turn affects the search for favourable investments abroad by companies and individuals. In order to maximise the inflow of investments into their countries, authorities mainly take measures to lower taxes, which makes the country more attractive to potential entrepreneurs. Tax competition is used especially by relatively underdeveloped countries, as foreign capital provides them the opportunity for the inflow of modern technology, new management methods and consequently export growth.

One of the effects of tax competition is the creation of tax havens, i.e. countries or territories using preferential tax rates in order to acquire capital from abroad. Tax havens promote themselves as areas free from taxes, differentiating the legal and tax positions of residents and non-residents. This makes it possible to evade the tax burden in the country of residence and even allows to legalise the income generated through criminal activity (money laundering).

The comparative analysis of income tax rates in the EU countries and selected tax havens proves that the phenomenon of tax competition is still very strong and the position of tax havens as countries offering relatively low taxes seems to be unthreatened. Additionally, there also exist differences between PIT and CIT tax rates among particular EU Member States. As a consequence, the question arises whether tax competition is a real problem for the EU. Empirical studies do not indicate that tax competition leads to large revenue losses. But even if tax competition reduces budget revenue, it is not obvious how to evaluate that phenomenon. Much depends on whether governments are perceived as benevolent or as Leviathans. If governments are benevolent, the negative features of tax competition will prevail over the positive ones. But if they are Leviathans, then cuts in tax rates could even be desirable.

The discussion in this paper suggests that the argument that tax competition necessitates corporate tax rate harmonization in the EU is not yet compelling. This suggests that a cautious approach to tax coordination is appropriate, and that attention should be focused on relatively modest initiatives rather than attempts at full harmonization of corporate income tax rates. It seems that efforts should focus on defining "unfair" tax competition and identifying measures to combat it. There are factors other than low tax rates that potentially give rise to unfair tax competition. These factors include (among others) the absence of information exchanges, bank secrecy laws, nontransparent tax provisions or negotiable tax treatment.

Even if tax competition is a real threat to public finance, it can be disputed whether tax coordination is the appropriate solution. Not all countries will benefit equally from coordination. Moreover, national autonomy over a state's fiscal policy would be significantly limited. Uniform fiscal policy would probably have positive impact on the EU economy as a whole, but particular countries would be forced to implement fiscal policies that might not be in line with their interests at a given point in time.

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Streszczenie

KONKUREWNCJA PODATKOWA CZY KOORDYNACJA PODATKÓW? CO JEST LEPSZE DLA UNII EUROPEJSKIEJ?

Konkurencja podatkowa to stosowanie takiej polityki podatkowej, która pozwoli na utrzymanie lub zwiększenie atrakcyjności danego obszaru dla lokalizacji inwestycji. Konkurencja podatkowa stosowana jest zwłaszcza przez kraje stosunkowo słabo rozwinięte, gdyż napływ kapitału zagranicznego daje im możliwość wdrożenia nowoczesnych technologii, nowych metod zarządzania i zwiększenia eksportu. Jednym ze skutków konkurencji podatkowej jest powstawanie rajów podatkowych, krajów lub terytoriów korzystających z preferencyjnych stawek podatkowych w celu pozyskania kapitału z zagranicy. Analiza porównawcza stawek podatku dochodowego w krajach UE i niektórych

rajach podatkowych pokazuje, że pomimo stopniowego obniżania stawek tych podatków w UE, zjawisko konkurencji podatkowej jest nadal bardzo silne, a pozycja rajów podatkowych jako terytoriów oferujących relatywnie niskie stawki podatkowe wydaje się być niezagrożona. W tym kontekście powstaje pytanie, czy konkurencja podatkowa jest prawdziwym problemem dla państw członkowskich UE oraz czy istnieją argumenty przemawiające za harmonizacją lub przynajmniej koordynacją podatków w krajach UE. Rozważania prowadzone w niniejszym artykule wskazują, że argumenty za wprowadzeniem koordynacji podatków w UE nie są jeszcze zbyt silne. Zarówno konkurencja podatkowa, jak i koordynacja podatków mają swoich zwolenników i przeciwników.

Słowa kluczowe: *konkurencja podatkowa, raje podatkowe, harmonizacja podatków, koordynacja podatków*