The Journal of Accounting and Management

Fiscal Structures and Economic Sustainability in the EU Member States: Challenges and Opportunities

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Abstract: This study analyzes the structure and evolution of personal income tax and social contributions across the European Union (EU) and the Eurozone. Tax revenue, derived from direct taxes (e.g., personal income tax, corporate tax) and indirect taxes (e.g., VAT, excises), alongside social contributions, plays a crucial role in financing public services and infrastructure. The study primarily relies on the analysis of publicly available data, observation, and comparative assessment to identify differences in tax burdens and their impact on economic and social systems. Additionally, it includes a review of fiscal policies across EU countries.The findings reveal significant disparities among member states in tax burdens and fiscal policies, influenced by economic priorities and social welfare models. This study provides valuable insights for academics, researchers and policymakers by analyzing tax structures and fiscal policies in the EU. It highlights differences in tax burdens, their economic and social implications, and policy trends such as digitalization and post-pandemic fiscal adjustments. The key contribution of the paper lies in its comprehensive data-driven analysis, combining quantitative tax data with a comparative policy review. Additionally, it offers timely insights into recent fiscal changes, making it a relevant resource for future tax policy planning.

Keywords: personal income tax; social contributions; tax burdens; social welfare; fiscal policies

JEL Classification: H24, H55, H31, H53, H20S

1. Introduction

The fiscal sustainability of EU Member States is a critical issue, particularly in the context of economic fluctuations and external shocks. Over the past decades, the European Union (EU) has faced multiple financial crises, such as the 2008 global financial crisis, the Eurozone sovereign debt crisis, and the economic downturn caused by the COVID-19 pandemic. These crises have highlighted the need for robust fiscal frameworks that ensure economic stability while enabling member states to respond effectively to economic downturns and maintain investor confidence (Zahariev et al., 2021).

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Ensuring fiscal discipline while maintaining economic growth is an ongoing challenge that requires careful structuring of tax policies, including personal income tax (PIT), which serves as a major source of government revenue. A well-designed PIT system contributes to long-term fiscal sustainability by:

- Generating stable tax revenues to finance public services and infrastructure (Abuselidze, 2020);
- Reducing income inequality through progressive taxation (Barrios et al., 2020);
- Balancing economic incentives by ensuring that taxation does not discourage labor market participation or investment (Gootjes & de Haan, 2020).

In response to fiscal challenges, the EU has implemented a series of fiscal rules and mechanisms to enforce budgetary discipline and control debt levels among member states. The two key fiscal frameworks governing the EU's fiscal sustainability are:

1. The Maastricht Treaty (1992): This established the convergence criteria for EU member states wishing to adopt the euro, setting fiscal deficit limits at 3% of GDP and public debt ceilings at 60% of GDP. These thresholds aim to ensure that excessive government borrowing does not threaten the stability of the monetary union (Larch et al., 2021).

2. The Stability and Growth Pact (SGP): Introduced in 1997 and later reformed, the SGP seeks to enforce fiscal responsibility by requiring member states to maintain sound public finances and avoid excessive deficits. The corrective arm of the SGP includes mechanisms such as the Excessive Deficit Procedure (EDP), which imposes penalties on countries that fail to comply with fiscal discipline (Alloza et al., 2019).

Despite these fiscal frameworks, divergences in national tax policies remain a challenge. Some EU countries have opted for flat tax rates to encourage economic growth and investment, while others have retained progressive PIT structures to enhance income redistribution and social welfare. The variation in PIT structures across the EU affects tax competition, fiscal sustainability, and economic convergence within the bloc (Reuter, 2019).

Moreover, recent reforms have sought to adapt EU fiscal governance to new challenges, including the European Semester, which provides a framework for economic coordination and monitoring among member states. In the wake of the COVID-19 crisis, the EU introduced temporary fiscal flexibility under the General Escape Clause of the SGP, allowing governments to increase public spending to support economic recovery. However, as economies stabilize, there is renewed pressure to restore fiscal discipline while addressing new priorities such as climate change, digital transformation, and social cohesion (Sikora, 2020).

In this evolving fiscal landscape, personal income tax remains a cornerstone of fiscal sustainability. Ensuring an optimal PIT structure—one that balances revenue efficiency, fairness, and economic incentives—is essential for maintaining the long-term fiscal health of EU economies (Abuselidze, 2020).

This study examines the role of personal income tax in shaping fiscal sustainability in the EU, highlighting the challenges and opportunities of different taxation models while considering the broader macroeconomic and policy environment.

2. The Role of Personal Income Tax in Economic Sustainability

Personal income tax (PIT) is one of the fundamental instruments of fiscal policy, playing a central role in revenue generation, income redistribution, and macroeconomic stability. It directly impacts household disposable income, which in turn influences consumption patterns, labor supply, and overall economic growth. As PIT policies shape individuals' incentives to work, save, and invest, they also have profound implications for economic efficiency, social equity, and government revenue stability.

PIT affects household disposable income, which is the portion of earnings left after tax deductions. Countries with high PIT rates tend to reduce disposable income, potentially leading to lower consumer spending and reduced aggregate demand. On the other hand, countries with lower PIT rates allow households to retain a larger share of their earnings, which can stimulate consumption-driven growth (Barrios et al., 2020).

The structure of PIT—whether flat or progressive—also determines how different income groups contribute to the tax base. Progressive tax systems, where higher income earners pay a larger percentage of their earnings in taxes, aim to reduce income inequality and ensure a fairer distribution of resources. Conversely, flat tax systems, where all taxpayers are subject to the same rate, are often favored for their simplicity, predictability, and potential to encourage investment and labor market participation (Abuselidze, 2020).

The level and structure of PIT influence individual decisions regarding employment, work hours, and workforce participation. High marginal tax rates—particularly in progressive systems—may discourage additional work effort or push highly skilled workers to relocate to lower-tax jurisdictions. This phenomenon, known as tax-induced labor mobility, can lead to brain drain in high-tax countries, reducing human capital and productivity (Gootjes & de Haan, 2020).

On the other hand, well-calibrated PIT policies that include tax-free allowances, deductions, or credits can encourage greater labor force participation, particularly among low-income earners, secondary earners, and part-time workers. Some EU countries, such as Germany and the Netherlands, use PIT incentives to support female labor participation, ensuring a more inclusive workforce (Alloza et al., 2019).

2.1. Flat vs. Progressive Tax Systems

Several studies explore the implications of progressive versus flat taxation in Central and Eastern European (CEE) countries. While flat taxes simplify tax administration and improve compliance, they tend to be less redistributive, leading to higher income inequality. Conversely, progressive taxation enhances redistribution but may introduce labor market distortions (Barrios et al., 2020).

Over the past decades, various EU countries have experimented with different PIT structures, seeking to balance economic efficiency with social fairness. The two main approaches include:

1. Progressive PIT Systems:

- Objective: Redistribute income, ensure social equity, and provide governments with a stable revenue source.
- Pros: Helps reduce income inequality, provides automatic economic stabilizers during downturns.

- Cons: Higher tax rates may discourage high earners from increasing productivity, investing, or remaining within a high-tax jurisdiction (Larch et al., 2021).

2. Flat PIT Systems:

- Objective: Simplify taxation, enhance compliance, and encourage economic growth.
- Pros: Easier to administer, promotes entrepreneurship, attracts foreign investment.
- Cons: May disproportionately burden low-income earners while reducing government revenue for social programs (Reuter, 2019).

Several EU countries, including Estonia, Latvia, and Lithuania, successfully implemented flat tax regimes, leading to higher compliance rates, lower tax evasion, and improved economic growth (Barrios et al., 2020). However, in recent years, some of these nations have moved toward moderate progressivity, recognizing the importance of maintaining fiscal sustainability and reducing inequality.

A comparative study of personal income tax reforms in EU countries highlights that increasing progressivity in PIT can significantly reduce income inequality while maintaining a positive, albeit small, macroeconomic impact. Budget-neutral reforms that combine progressive taxation with tax credits or allowances are particularly effective in balancing equity and efficiency (Barrios et al., 2020).

2.2. PIT's Impact on Employment and Growth

Empirical evidence suggests that PIT structures affect labor market participation and overall economic growth. Personal Income Tax (PIT) plays a significant role in the economic landscape of the European Union, influencing both employment and economic growth. Research suggests that PIT is one of the primary sources of government revenue, second only to indirect taxation, and has considerable implications for labor markets and corporate investment decisions (Szarowská, 2014).

Higher PIT rates on high-income earners may discourage work effort and savings, while tax relief for lower-income groups can stimulate labor supply. In countries with progressive PIT systems, automatic stabilizers can cushion economic downturns by maintaining consumption levels (Abuselidze, 2020).

3. Fiscal Sustainability and PIT Reforms in the EU

Ensuring fiscal sustainability in the EU requires a balanced approach to taxation, particularly in PIT policies. Several EU countries, especially those with flat tax regimes, have introduced PIT allowances and credits to mitigate inequality effects. Hungary, for example, maintains a flat PIT rate but includes tax credits to compensate lower-income earners (Barrios et al., 2020).

A study analyzing PIT policies in the EU suggests that fiscal risks are closely tied to taxation structures. Countries with robust progressive taxation mechanisms tend to have lower fiscal risks, as these systems provide stable revenue streams and ensure a fairer income distribution (Zahariev et al., 2021).

Beyond its direct economic effects, PIT plays a countercyclical role in fiscal policy. During economic booms, higher earnings lead to increased tax revenue, allowing governments to build fiscal buffers. Conversely, during recessions, progressive PIT structures automatically reduce the tax burden on struggling households, supporting consumer spending and demand stabilization (Zahariev et al., 2021).

To enhance fiscal stability, some EU countries have introduced tax smoothing mechanisms, such as temporary PIT reductions during downturns or gradual rate adjustments to avoid economic shocks. These strategies help maintain tax fairness and economic resilience in an increasingly volatile global environment (Sikora, 2020).

4. Challenges and Opportunities in PIT Reforms

Despite the advantages of progressive taxation, challenges remain in designing effective tax policies that balance revenue generation with economic incentives. The key challenges that PIT reforms face with are: Tax compliance and administration, as progressive tax systems require efficient enforcement mechanisms to prevent tax evasion and ensure compliance (Reuter, 2019), economic growth considerations, as high PIT rates may discourage investment and entrepreneurship, potentially slowing economic growth (Larch et al., 2021), political and social acceptability: PIT reforms often face resistance from high-income earners and business groups, making implementation politically sensitive (Gootjes & de Haan, 2020).

Despite the challenges, there are also opportunities for improving PIT systems by integrating tax credits and allowances. Countries can enhance equity while maintaining efficiency by introducing refundable tax credits and phased-out allowances (Barrios et al., 2020). Another opportunity could be by harmonizing EU Tax Policies. A more coordinated approach to PIT across EU Member States could reduce tax competition and enhance revenue stability (Alloza et al., 2019). Nevertheless, digitalization plays a crucial role in leveraging digital taxation. Implementing digital tools for tax administration can improve compliance and reduce tax evasion (Reuter, 2019).

5. Methodology

This study adopts a quantitative, comparative, and descriptive research approach in order to investigate the structure and evolution of personal income tax (PIT) and social contributions across the European Union (EU) and the Eurozone. The research is based on secondary data sources and involves a systematic analysis of fiscal indicators, comparative assessments between member states, and a contextual review of taxation policies. The main objective is to evaluate how different tax structures contribute to or hinder fiscal sustainability within diverse socio-economic frameworks.

Data for this study were collected from official and publicly accessible sources, including the Eurostat database, annual taxation reports published by the European Commission, and datasets provided by the OECD and the Tax Foundation. In some instances, national government publications were also consulted to complement the analysis. The selected data cover the period from 2017 to 2022, allowing for the examination of both long-term trends and the impact of recent shocks such as the COVID-19 pandemic.

The research focuses on several key variables, including wage tax revenues as a percentage of GDP, the share of wage taxes in total government revenue, statutory and effective personal income tax rates, social contribution levels from both employers and employees, and the typology of PIT systems—distinguishing between flat and progressive tax regimes. These variables were analyzed in relation to broader macroeconomic and social indicators to understand their implications for national fiscal stability and economic resilience.

To analyze the data, the study employs descriptive statistical techniques that reveal patterns and disparities in taxation across member states. A cross-country comparative analysis is used to highlight the differences in the implementation and outcomes of flat versus progressive PIT systems, while trend analysis allows for the identification of shifts in fiscal policy, especially in response to economic disruptions such as the global financial crisis and the pandemic-related downturn. Additionally, a policy review component was integrated to align the empirical findings with relevant legislative frameworks and policy initiatives, such as the Maastricht Treaty, the Stability and Growth Pact (SGP), and the European Semester.

6. Results and Discussions

As of 2022, the average tax and social contribution rate in the EU stood at approximately 41% of GDP (European Commission, 2023). However, there were significant disparities in tax burdens across member states, reflecting diverse fiscal policies, economic priorities, and social welfare models. The data in figure no.1 reflects that nordic countries, particularly Sweden and Denmark, recorded some of the highest taxation levels in the EU. Their extensive welfare systems—which include universal healthcare, pension schemes, and robust public services—necessitate higher taxation rates to maintain fiscal sustainability.

France, Belgium, and Austria ranked among the highest tax-to-GDP ratio countries, signifying a larger public sector role in providing social security, healthcare, and education. These high tax levels suggest a strong emphasis on wealth redistribution and social equality.

In contrast, Ireland and Bulgaria maintained significantly lower taxation levels, largely due to investment-friendly tax policies aimed at enhancing economic competitiveness and attracting multinational corporations. Ireland, for instance, has historically leveraged low corporate tax rates to attract foreign direct investment (FDI), positioning itself as a global business hub.

The overall tax burden (including social contributions) across EU member states varies from approximately 20% of GDP (in Ireland) to more than 46% of GDP (in France). Social contributions (SC) represent the largest source of revenue in most EU countries, accounting for 32% of all tax revenues in the EU-27. However, Denmark collects almost no social contributions, and their significance is also limited in Sweden, where only 6.2% of total tax revenues come from social contributions.

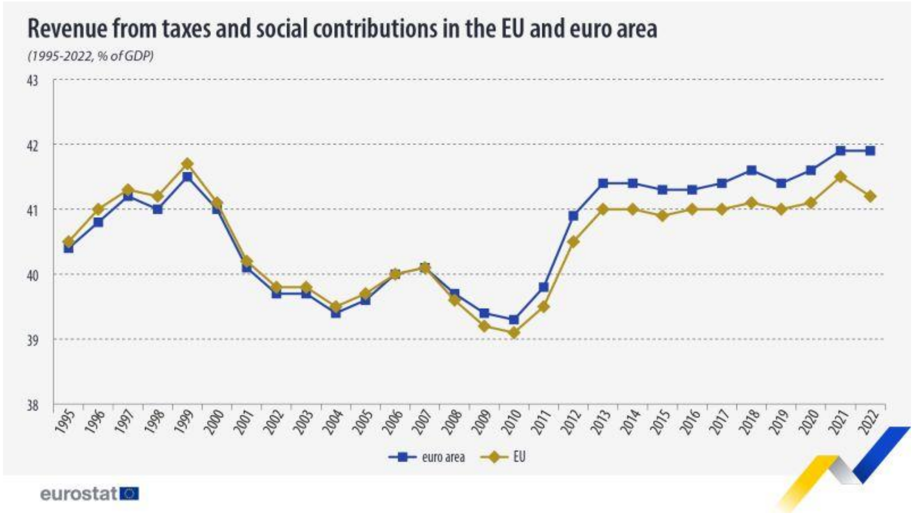

Figure 1. Analysis of Revenue from Taxes and Contributions in the EU and Eurozone (% of GDP)

Source: Eurostat Database

Personal income tax (PIT) is another major revenue source, making up 23.9% of total tax revenues in the EU-27. Revenue from PIT is somewhat complementary to revenue from social contributions, meaning that countries with lower social contributions tend to have higher PIT revenues, and vice versa.Value-added tax (VAT) is the third most significant revenue source, constituting 18.6% of all tax revenues in the EU-27. Finally, corporate tax (CT) contributes 8.1% of total tax revenues in the EU-27. However, its significance varies among countries: Ireland (21.5%), Cyprus (18.1%), and Malta (14.9%) rely heavily on corporate tax as a revenue source. Conversely, Latvia (3.3%) and Hungary (3.8%) collect the lowest shares of their tax revenue from corporate taxation.

Table 1. The value of salary taxes as a percentage of GDP %

Country	2017	2018	2019	2020	2021	2022	Ranking 2022	Revenue 2022 (million EUR)
EU-27	20.6	20.7	20.7	21.3	20.7	20.3		3,233,366
EA-19	20.9	21.1	21.1	21.7	21.1	20.9		2,804,626
Belgium	22.6	22.4	22.0	22.9	21.7	22.3	6	123,276
Bulgaria	10.4	10.9	11.1	11.5	11.1	10.4	26	8,963
Czechia	18.2	19.0	19.2	20.2	19.0	17.9	14	49,375
Denmark	23.0	22.9	23.3	24.2	23.9	22.3	5	84,855
Germany	22.2	22.6	23.0	23.2	22.8	22.6	4	877,245
Estonia	16.8	16.7	16.8	17.7	17.5	17.2	15	6,203
Ireland	9.6	9.5	9.5	8.7	8.7	8.7	27	43,859
Greece	16.3	16.6	16.4	17.5	17.2	16.2	16	33,437
Spain	16.4	16.8	17.5	19.9	19.3	19.1	10	256,799
France	24.1	24.1	23.1	23.3	22.9	23.4	1	617,713
Croatia	13.3	13.5	13.4	13.8	12.8	12.6	23	8,585
Italy	20.7	20.9	21.5	22.2	21.4	20.7	8	403,854
Cyprus	11.5	11.7	13.4	14.2	14.2	14.5	21	4,021
Latvia	14.3	14.4	15.0	15.5	15.1	14.6	19	5,676

Country	2017	2018	2019	2020	2021	2022	Ranking 2022	Revenue 2022 (million EUR)
Lithuania	14.7	15.4	15.3	16.0	16.0	15.9	17	10,748
Luxembourg	17.1	17.9	18.4	18.9	18.1	18.6	11	14,401
Hungary	17.5	16.9	16.6	16.2	14.5	14.6	20	24,631
Malta	10.4	10.8	10.8	12.0	12.0	12.2	24	2,130
Netherlands	20.1	19.7	19.5	20.5	19.1	18.4	12	176,074
Austria	23.2	23.5	23.7	24.2	24.2	23.1	3	103,261
Poland	13.8	14.1	14.2	14.3	14.2	13.6	22	88,908
Portugal	14.4	14.6	14.8	16.3	16.1	15.9	18	38,579
Romania	10.8	12.1	12.0	12.8	12.0	11.4	25	32,538
Slovenia	18.7	18.9	18.9	20.0	19.9	19.3	9	11,005
Slovakia	17.8	18.1	18.5	18.9	18.9	18.2	13	20,002
Finland	21.3	21.0	21.0	20.6	21.0	21.0	7	56,343
Sweden	25.7	25.6	24.9	24.6	24.0	23.2	2	130,884
Norway	18.4	17.9	18.7	20.0	17.1	13.3		75,303

Source: Eurostat Database

The analysis of Table 1, which examines the value of wage taxes as a percentage of GDP in various European countries from 2017 to 2022, provides insights into fiscal trends and allows for the comparison of different tax policies.

Trends in the EU-27 and Eurozone (EA-19):

- EU-27: The average percentage of wage taxes relative to GDP fluctuated slightly, rising from 20.6% in 2017 to a peak of 21.3% in 2020, followed by a decline to 20.3% in 2022.

- Eurozone (EA-19): Displayed a similar pattern, reaching a high of 21.7% in 2020, before decreasing to 20.9% in 2022.

These trends reflect a stabilization of fiscal policies after the pandemic crisis period, during which temporary support measures were introduced to sustain economies.

Countries with the Highest Wage Taxes in 2022:

- France (23.4%) – Ranked highest due to significant social contributions that finance an extensive social welfare system.

- Sweden (23.2%) – Follows the Nordic social model, which emphasizes comprehensive public services and high social security benefits.

- Austria (23.1%) – Maintains a balanced approach between tax revenues and social service expenditures.

These countries impose higher wage taxes to fund extensive social programs and high-quality public infrastructure.

Countries with the Lowest Wage Taxes in 2022:

- Ireland (8.7%) – Has the lowest share due to a tax-friendly environment designed to attract foreign direct investment (FDI).

- Bulgaria (10.4%) – Maintains a low-tax strategy to attract a competitive workforce and investment opportunities.

- Romania (11.4%) – Falls below the EU average due to a flat tax system and moderate social contributions.

These countries focus on economic competitiveness by keeping wage tax burdens low, making them attractive for investors and businesses.

Table 2. The value of salary taxes as a percentage of GDP %

Country	2017	2018	2019	2020	2021	2022	Ranking 2022
EU-27	51.6	51.7	51.8	53.2	51.2	50.6	
EA-19	52.0	52.1	52.3	53.8	51.8	51.2	
Belgium	50.5	50.0	50.6	52.8	50.3	51.4	7
Bulgaria	34.9	36.6	36.4	37.7	36.1	33.5	27
Czechia	51.3	52.8	53.4	56.3	53.0	50.6	10
Denmark	50.3	51.6	49.5	51.1	50.1	53.2	4
Germany	56.5	56.7	57.3	58.7	55.8	55.5	2
Estonia	51.1	50.7	50.6	53.2	51.6	52.3	6
Ireland	42.7	42.5	43.3	44.2	42.1	41.4	22
Greece	41.0	41.1	41.5	44.3	42.8	39.3	25
Spain	48.5	48.4	50.5	53.8	50.9	50.6	11
France	51.9	52.1	51.0	51.4	50.7	50.7	9
Croatia1	35.1	35.2	35.0	36.6	34.8	34.1	26
Italy	49.5	50.2	50.9	52.3	50.4	48.6	14
Cyprus	35.0	35.3	39.1	42.1	40.7	39.6	23
Latvia	46.0	46.6	48.9	49.9	49.1	48.1	16
Lithuania	50.1	51.1	50.8	51.2	50.3	50.5	12
Luxembourg	46.6	45.4	46.4	49.2	47.2	48.3	15
Hungary	46.0	45.8	45.7	44.9	43.0	41.6	21
Malta	34.5	35.8	36.4	41.3	41.0	42.6	19
Netherlands	51.9	50.9	49.7	51.5	48.6	47.7	17
Austria	55.4	55.5	55.4	57.5	55.7	53.5	3
Poland	40.4	40.1	40.4	40.3	38.8	39.4	24
Portugal	42.2	42.2	42.9	46.3	45.6	44.2	18
Romania	42.9	46.9	46.2	49.2	45.6	42.6	20
Slovenia	50.0	50.5	50.0	53.1	51.7	51.4	8
Slovakia	52.6	53.4	54.0	54.7	53.6	52.4	5
Finland	49.7	49.5	49.8	49.3	48.5	48.8	13
Sweden	58.3	58.4	58.1	58.1	56.5	55.6	1
Norway	47.5	45.6	47.0	51.7	41.4	30.7	

Source: Eurostat Database

Table 2 presents the percentage of total government tax revenues derived from wage taxes, analyzed for the period 2017-2022. The data highlights the fiscal significance of labor income within the budget structures of different EU member states and the Eurozone.

EU-27: The share of wage taxes as a percentage of total tax revenue saw a slight decline, from 51.6% in 2017 to 50.6% in 2022, indicating a gradual diversification of fiscal revenue sources. Eurozone (EA-19): Followed a similar trend, peaking at 53.8% in 2020, before declining to 51.2% in 2022. This suggests that while public budgets remain highly dependent on wage taxes, governments have also introduced balancing measures by increasing revenues from alternative sources.

Countries with the Highest Share of Wage Taxes in 2022: Sweden (55.6%) – Ranked highest, reflecting a tax system that heavily relies on high social contributions, which are central to the Nordic social protection model. Germany (55.5%) – Strong reliance on wage-based taxation to support social services and pension systems. Austria (53.5%) – Emphasizes social contributions to ensure public sector stability and long-term fiscal sustainability. These countries channel a large portion of their tax revenue from wages into comprehensive social security programs, including healthcare, pensions, and public welfare.

Countries with the Lowest Share of Wage Taxes in 2022: Norway (30.7%) – Low reliance on wage taxes, likely due to high revenue from natural resources, such as oil and gas. Bulgaria (33.5%) – Implements a business-friendly tax system with low tax rates and social contributions, benefiting employers and employees. Croatia (34.1%) – Adopts a fiscal model that prioritizes other revenue sources over labor taxation. Countries with lower wage tax shares tend to favor economic competitiveness, prioritizing lower tax burdens to stimulate employment and attract investment.

Between 2017 and 2022, the share of wage taxes as a percentage of total tax revenue fluctuated: Increased from 42.9% in 2017 to a peak of 49.2% in 2020, driven by: rising minimum wages, higher employment levels before the pandemic and declined to 42.6% in 2022, reflecting the impact of post-pandemic economic recovery measures. This variation indicates how changes in labor markets and government policies influence tax revenue distribution.

The data highlights significant differences in tax structures among EU member states: countries with high wage tax shares allocate a large portion of these funds to extensive social benefits, while countries with low wage tax shares—such as Romania and Bulgaria—prioritize labor market flexibility and investment incentives. These fiscal approaches reflect different national strategies to balance economic growth with social welfare needs.

Among OECD European countries, the average top statutory personal income tax rate in 2024 is 42.8%, with the highest rates in Denmark (55.9%), France (55.4%), Austria (55%) and the lowest rates in Hungary (15%), Estonia (20%) and Czech Republic (23%).

Among non-OECD European countries, personal income tax rates tend to be lower, often following a flat tax system: Bulgaria and Romania (10%) have the lowest rates in the EU, while other countres from Europe also apply low flat tax rates: Moldova (12%), Ukraine (19.5%), and Georgia (20%).

These differences illustrate varied fiscal policies, with some countries focusing on progressive taxation and social welfare, while others promote investment through lower personal income taxes.

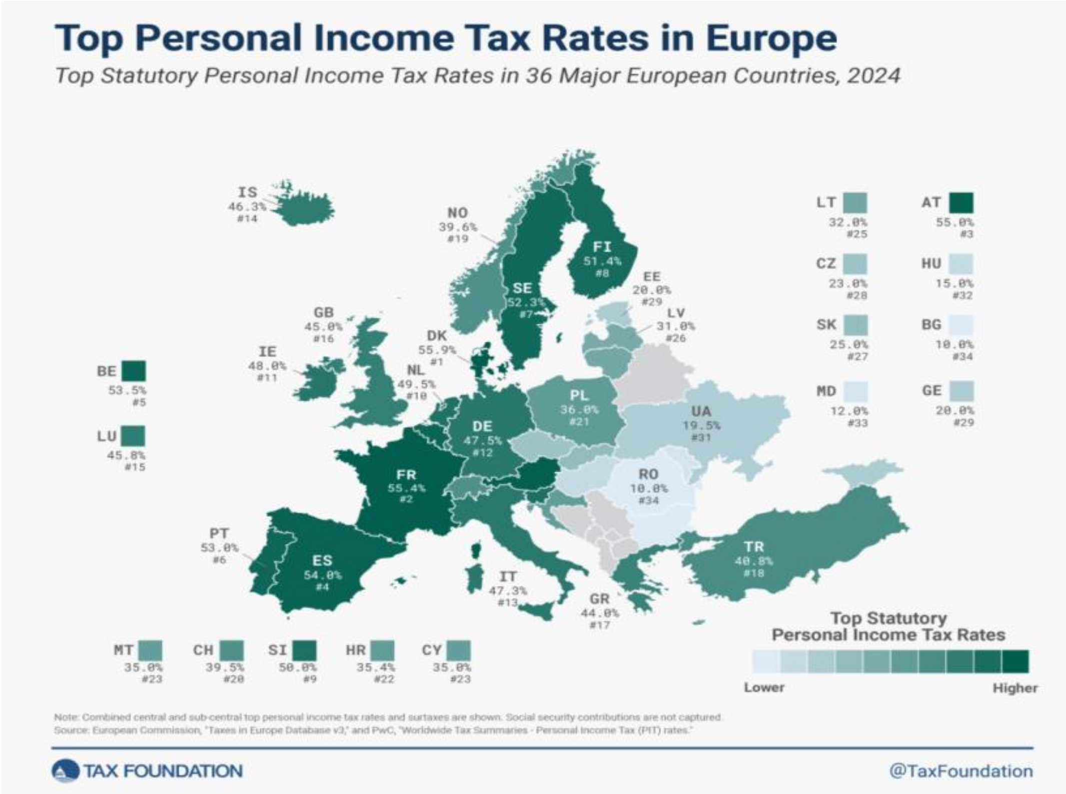

Figure 2. Wage income tax rates in Europe

Source: Tax Foundation

For comparison, the average combined personal income tax rate (including state and federal taxes) across the 50 U.S. states and the District of Columbia is 42.32% as of January 2024. Tax rates range from 37% in states with no state income tax to 50.3% in California. Some European countries are considering adjusting their top personal income tax rates in the coming years. Austria plans to eliminate its highest tax bracket in 2026, reducing the maximum income tax rate from 55% to 50%. Estonia will increase its flat income tax rate from 20% to 22% in 2025.

7. Conclusions

Personal income tax is a multifaceted tool of fiscal policy, with broad implications for disposable income, labor market participation, and economic growth. While progressive PIT structures promote social equity and countercyclical fiscal stabilization, flat tax models offer simplicity and growth incentives. The optimal PIT design depends on a country's economic structure, income distribution, and policy objectives. Future reforms should aim to balance efficiency and fairness, ensuring sustainable economic growth and robust public finances across the EU.

Tax and social contribution revenues play a crucial role in shaping the fiscal structure and economic sustainability of European Union (EU) member states. These revenues are derived primarily from direct taxes—such as personal income tax and corporate tax—and indirect taxes, including Value-Added Tax (VAT) and excise duties. Additionally, social contributions, which encompass employer and employee contributions to national social security systems, account for a substantial share of government income. Together, these revenue streams finance essential public services, infrastructure development, and social welfare programs, directly influencing the standard of living across the EU.

As the EU navigates post-pandemic economic recovery and accelerates its transition to a greener, digitalized economy, fiscal policies will continue to evolve to address economic inequalities, enhance efficiency, and ensure long-term financial sustainability. The future of EU taxation will likely emphasize innovation-driven tax frameworks, stronger enforcement mechanisms, and a deeper alignment between economic competitiveness and social welfare objectives.

The analysis highlights the diversity of fiscal approaches among European countries, reflecting economic and social priorities unique to each state.

- Countries with higher wage taxes provide comprehensive social benefits and public services.

- Countries with lower wage taxes focus on investment attractiveness and economic competitiveness.

These differing strategies illustrate how fiscal policy is adapted to meet national economic goals, labor market dynamics, and welfare systems across the EU.

Taxes and social contributions are the backbone of public sector funding, supporting healthcare, education, infrastructure, and social security systems. However, striking the right balance between revenue generation and economic growth stimulation remains a persistent challenge.

Excessively high tax rates can discourage business investments, limit job creation, and reduce a country's global economic competitiveness, while insufficient taxation, on the other hand, may lead to underfunded public services, widening socioeconomic inequalities, and exacerbating budget deficits.

The COVID-19 pandemic triggered an economic crisis that forced many EU governments to reassess their fiscal policies. In response, member states implemented expansionary fiscal measures, including tax deferrals, direct financial support to businesses, and increased government spending to stimulate recovery. These interventions elevated public debt levels, requiring future policy adjustments to ensure long-term fiscal stability (European Comission, 2020).

Additionally, there is a growing shift toward digitalizing taxation systems and enhancing tax compliance mechanisms to combat evasion and improve revenue collection. Many EU nations have embraced automated tax filing, real-time reporting, and cross-border digital cooperation, strengthening enforcement efforts and reducing loopholes.

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