
Personal Income Harmonization Process

Submitted 04/03/21, 1st revision 21/04/21, 2nd revision 13/05/21, accepted 30/05/21

Sylwester Bogacki¹, Agnieszka Sulimierska²

Abstarct:

Purpose: The aim of the research is to determine whether harmonization of personal income taxation in the European Union countries is possible and desirable.

Design/Methodology/Approach: The paper objective requires 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. The main research method was induction. Moreover, the paper uses two general research methods, namely analytic and synthetic methods, characterized by detailed presentation of the reality research.

Findings: 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 has been limited (range of research) to personal income of individuals who do not conduct any form of business activity and it reflects the short and long-term run.

Practical Implications: The specificities and different models of taxation of personal income in the EU and the different systems of integration of taxation with pension contributions make it impossible to standardise and harmonise this form of taxation. From a legal point of view harmonization is possible, but from an economic point of view it is not advisable. In addition, different wage levels, the way the minimum subsistence level is calculated and different tax allowance and exemption systems do not allow for effective harmonization of personal income tax.

Originality/Value: The results reflect that despite the lack of Directives to regulate the rules of taxing personal income, the rules are emerging spontaneously and tax burdens are slowly equalizing. This process is the result of competition between EU member state tax systems—nations extensively are utilizing the construction of the personal income tax to utilize the stimulating functions of the tax system, which in turn impacts the possibilities open to spontaneous PIT harmonization.

Keywords: Taxation, personal income, harmonization process, tax efficiency.

JEL codes: F15, H24, K34.

Paper type: Research article.

¹Corresponding Author, Institute of Public Administration and Business, University of Economy and Innovation in Lublin, Poland, e-mail: sylwester.bogacki@wsei.lublin.pl

²Corresponding Author, Department of Management, Faculty of Management, Lublin University of Technology, Poland, e-mail: a.sulimierska@pollub.pl

1. Introduction

Personal income tax (hereinafter referred to as PIT) has a short history, as it appeared in tax systems of EU countries as late as at the end of the 18th century. As a specific universal structure it performs two economic functions, providing financial means for covering some public expenses (fiscal function), leveling inequalities through its structure in population incomes (a redistribution function). It also implements social functions of taxation through various tax reliefs and exemptions or the structure of the tax scale. Contemporary personal income tax in European countries has been shaped by many years of evolution. This process is continuing, taking into account the process of European integration and the processes of standardizing and harmonizing tax systems in European Union countries. Most EU states only sporadically implement major reforms of personal income taxation. The scope of such changes is usually limited and determined by current fiscal needs or the need to stimulate a particular behavior of taxpayers. 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 system aspects (Wołowiec, 2018; 2019).

The main aim of the paper is to determine whether harmonizing personal income taxation in European Union countries is possible and desirable. The subject of the research is personal income tax imposed on people who do not conduct economic activities, taking into account its structure in tax systems of EU countries and challenges for the harmonization process. The subject of the research covers regularities, specificity and special features of the personal income tax structure, taking into account the processes of globalization, micro and macro-economic challenges facing tax policy and pro-competitive and pro-social model of personal income taxation. Within the conducted analysis we attempted to verify the following research hypothesis: there are economic, political and social reasons for the harmonization of income taxation of individuals who do not conduct any business activity in the European Union countries. It has been assumed that the verification of the adopted research hypothesis which is not more than speculation or a guess, provisionally determines the necessity to obtain answers to the following research questions:

Does large differentiation of personal income taxation systems in the European Union countries constitute a threat to the common market?

Does harmonizing personal income taxation of individuals who do not conduct any business activity make sense?

What benefits will we obtain thanks to harmonizing the analyzed taxation form and what costs do we bear as a result of its absence?

What and how did various economic and social conditions determine the heterogeneity of personal income taxation in European Union countries?

Taking into account the specificity of personal income tax, the issues of tax competition and significant differences in PIT structures 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. We should remember that the principles of personal 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, harmonizing of these taxes is much more difficult than indirect taxes, from the political, technical and legislative points of view. The main element differentiating direct taxation is its slight degree of normative harmonization. It is commonly believed that direct taxes exert a less destructive influence on the functioning of the common market; therefore, work on their harmonization started later, lasted longer and did not go as far as in the case of indirect taxes (Mazurek-Chwiejczak, 2016; Taxation Trend, 2019; 2020).

Competition between tax systems forces certain solutions in national tax systems, aimed at bringing closer the structures of certain taxes in order to ensure the optimal functioning of the common market. Thus “quiet harmonization” is a consequence of progressing competition among national tax systems in particular forms of taxation. The effect of quiet harmonization is bringing closer structural solutions in personal income tax in European Union states (Baiardi, Profeta, and Scabrosetti, 2017; Corak, 2013). This has led to us finding out that the main reference points for the transformation of an individual’s taxation system in European Union Countries has been limited to the 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 the discretion of the member states. The only harmonization activities should concern removing barriers to the four economic freedoms and provide uniformity of taxation (Davidson, 2007; Torres, Mellbye, and Brys, 2012).

2. Literary Review

The concept of income was of vital importance in the development of income tax. We can differentiate two basic concepts of income (Holmes, 2001). The first one is the concept of the theory of revenue sources focused on the regular inflow of economic value from particular sources, historically linked to the English income tax system. According to this theory, taxable income is a regular surplus coming from regular sources. A much broader concept of income is offered by the theory of net asset growth which combines taxable income with the growth of economic ability to spend the income, whether it is regular or a one-off. The essence of this theory is the economic ability of a given individual obtained in a specified period of time and calculated by summing all net revenues (incomes) and benefits, even one-off ones (such as donations, lottery wins, etc.), obtained in one tax year (Krajewska, 2012; McGee, 2004; Taxation Trends, 2020). The presented theories significantly

influenced the development of particular types of income tax (Auerbach and Hines, 2001; Tax Policies, 2020).

We can differentiate three basic types of tax: Roman (mixed), German (global) and British (scheduler). The Roman type was a historical transition from revenue tax to income tax. Its specific feature lies in the fact that particular parts of income are first placed in tax schedules and are taxable according to the progressive or proportional rate, and then the general income is established and taxed according to the progressive rate. This type of income tax can be found mostly in the tax systems of France, Italy, Belgium, and Portugal (Zee, 2005). The German type of income tax originated in East Prussia and then spread to the Netherlands, Switzerland, Austria, and Scandinavian countries. In this system the tax is collected from global (general) income, regardless of the source of obtained revenues, using the progressive tax rate.

In the British (scheduler) type of income tax, income is not determined globally, but partial incomes are summed, specifically defined in the so-called schedules. The sum of partial incomes gives the total (consolidated) income. Partial incomes are taxed according to proportional or progressive rates. The tax collected from scheduler incomes is treated as an ordinary tax, in contrast to the tax collected from general income using the progressive rate, which is then treated as an additional tax. Schedules determine particular incomes very precisely, and then, within them further (detailed) division of incomes into particular groups takes place (Cnossen, 2001; Kesti, 2012-2016; Egger, Nigai, and Strecker, 2019).

The evolutionary development of income tax has led to the development of several specific features dominating contemporary tax systems. The first one involves basing the income tax structure on the theory of net asset growth, which offers its broad understanding, and, in connection with this, adapting global income as the basis for taxation (freeing taxation from sources of obtaining revenue). A contemporary version of the theory of net asset growth is the theory of market income (originating in the German tax doctrine), according to which the income of a particular entity is the asset growth generated and performed by this entity (James and Nobes, 2012). This means that income is generated only in the economic turnover, as an effect of human work, investment of capital, thus excluding inheritance, donations and other extraordinary incomes. In taxation practice, some elements of the theory of sources are also used, by excluding incomes obtained from determined sources from general income and taxing them according to a separate tax rate (usually the proportional one) (Holmes, 2001; Wołowiec, 2016).

Since global (unitary) income tax is a structure commonly used in contemporary tax systems, taxation of a taxpayer's income is based on the principle of tax assessment and self-calculation of tax or calculation conducted by the payer. Some factors affecting the taxation method have been selected and introduced into tax systems because of the tax purpose, depending on whether fiscal burden rests on the taxpayer alone and depending on the costs of administering (managing) taxes (Inventory of

Taxes 2011-2019). Therefore the taxpayer cannot – as a result of payment collection have at their disposal the amount of tax, while the difference resulting from it – in the case of some alternative investment would allow them to obtain some additional profit (benefits), calculated at the current value of money. In the second case, when the tax is collected using the above method, it is called tax at source. Even though the tax is paid by the payer to tax organs, the recipient of this income in this case is the taxpayer (Wołowiec, 2011; KMPG's, 2012-2019).

In order to make an assessment of tax, tax organs must have reliable data (information), which is necessary when determining the amount of tax. The nature of tax assessment by tax organs imposes on the taxpayer a duty of submitting (communicating) relevant information in their tax return (declaration). If the taxpayer, despite this obligation, does not meet it, in this case the tax organs are entitled to assess the tax by assessing the taxpayer's income. Many tax systems abandoned the assessment method in favor of the taxpayer's self-calculation of tax (Hite and Roberts, 1992; Structure of European Union Taxation Systems, 2010-2019). This mostly concerns corporate income taxation, which is a situation in which tax obligation is created by law. Despite the self-calculation technique, no tax system has abandoned the obligation to submit a declaration in order to make it easier for tax organs to control the correctness of a self-calculation performed by the taxpayer. This method of tax assessment is used only with reference to taxes constituting a burden on the taxpayer's global income (Holmes, 2001; James and Nobes 2012).

Tax collected at source may be treated as a specific down-payment towards income tax. In this method, the taxpayer is obliged to declare in his annual return form, the size of obtained income and is entitled to lower (reduce) the amount of due tax calculated in this tax return by the amount of tax that was collected at source. The tax collected at source is called 'tax paid at source included'. Alternatively the tax collected at source may be the final tax collected at source. In this case income recipient (taxpayer) is exempted from an obligation to submit tax declaration and from obligation concerning the amount of collected tax. Taxes collected at source usually have a fixed rate, which is applied to the revenue (not income), which means that we do not take into account any costs of obtaining revenue or the personal situation of a taxpayer (income capacity). Therefore we can state that taxes collected at source are examples of scheduler taxes. With reference to the income related to work remuneration, most countries combine both methods of collection, that is assessment and collection of tax at source, which is known as the 'pay as you earn (PAYE) system (Kesti, 2011-2019). In this system, employers (payers) are obliged to collect tax at source from the remunerations of their employees.

The structure of contemporary personal income tax should be based on three principles, universality, equality (equity) and taxation of pure income (Taxation Trends in The European Union, 2012-2019; Cnossen, 2001). The advantages of income taxes include (McGee, 2004; Bradley, 2021; Wołowiec, 2018; 2019):

Relative resistance to economic crises, shown in the stability of budget tax revenues. Flexibility to legal regulations through the influence of statutory rate(s) change on the fiscal effectiveness of the tax as:

- Relative savings in collection costs.
- Adjusting the size of the tax burden to the individual tax capacities of the taxpayer (tax personalization).

The disadvantages of this form of taxation include:

- Slow collection, i.e., a significant time span between the appearance of a taxation object and the payment of the tax.
- The absolute transparency of the collection.
- The unequal burden on various social classes.
- The complexity of taxation.

Income taxes, due to their direct nature, are an equaling instrument and introduce the principle of taxation equity into the tax system. Taking into account the fact that indirect taxes have institutional injustice, tax callousness and excessively burden the poorest taxpayers, we can compensate for this injustice using direct taxation. Income taxes also help the taxpayer realize, thanks to their directness and ostentation of collection, the level of the tax burden. Basing the structure of budget tax revenues on revenues from direct or indirect taxes is based on defined criteria concerning both fiscal and stimulation functions (Ćurčić, Milojević, and Krunić, 2020).

Income tax is highly valued in the financial law doctrine. It is seen as a type of taxation which meets all theoretical requirements of science, constitutes an efficient source of public income and does not harm the economy. There are two variations of income tax: scheduler tax (on partial incomes) and global tax (on general income). Scheduler tax consists of the separate taxation of incomes from various sources, using different tax rates. The income which is taxed separately is then summed up and taxed again as general (global) income. This means that the same income is double-taxed. The use of the second concept, namely global income tax, means that all incomes obtained from various sources by the taxpayer are taxed. The joint taxation of all the incomes obtained by the taxpayer allowing his/her subjective payment possibilities resulting from his/her material and family situation to be taken into account.

Such a concept of income tax is widely used and is connected with the application of progressive tax scale. Progression, however, evokes natural tendencies to take into consideration various exemptions and reliefs, which lower the tax base and consequently lead to the application of a lower tax rate resulting from the progressive scale (Henman, 2007; Kesti 2010-2019). The “pro-family nature” of the whole tax system, especially its personal income tax element, quite often appear both in politicians declarations, social activists statements and in the hopes of

taxpayers, especially those with large families. In practice, legal solutions, especially those concerning the taxation of personal incomes, should not ignore pro-family social expectations (Wołowiec, 2020; Wołowiec and Kępa, 2020; Wołowiec and Bogacki 2020). At the same time we should stress the widespread view that taxes should be neutral, which prevails in the doctrine. The belief that taxes should be neutral stems from their fiscal function. We should, not according to some experts, use taxes to achieve various social goals, some of which may go against the fiscal requirements of the state. Such goals should be accomplished using other, non-tax instruments (for example by introducing family benefits rather than pro-family tax preferences). With such different positions of the financial law doctrine – on the one hand, and many politicians and a considerable part of the society – on the other, is it possible to introduce pro-family solutions into the tax system that do they make sense.

3. Harmonization of Direct and Indirect Taxation

The imperative for harmonizing 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 basis for initiatives in the harmonization processes was Article 100 of the Treaty, stipulating the harmonization of those regulations that directly affect the creation and operation of the internal common market. The process of harmonizing direct taxes covered different income tax regulations which limited the freedom of income flow in the 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). We should remember that the principles of income taxation in EU countries does 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, harmonizing these taxes is much more difficult than indirect taxes, 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 the treatment of domestic and foreign companies and which refer to avoiding double taxation. It is probable that further elements of corporate income tax will be harmonized next – tax rates and the taxation base (Militz, Dominik-Ogińska, Pomorska, Wróbel, and Murdecki 2011).

The main element differentiating direct taxation is its slight degree of normative harmonization. It is commonly believed that direct taxes exert a less destructive influence on the functioning of the common market; therefore work on their harmonization started later, lasted longer and did not go as far as in the 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 domestic solutions in this area. However, they are obliged to treat domestic and foreign operators equally as far as taxation is concerned. There are several reasons for the relatively low scope of harmonization (Taxation Trends in The European Union 2012-2019; Structures of the taxation systems in the European Union, 2012-2019).

Firstly, when signing the Treaty of Rome, it was believed that direct taxes do not significantly influence the internal market, as a result of which there are no specific regulations on harmonizing direct taxes. Thus, community law in direct taxes can only be based on the general regulations of Article 94 of the Treaty establishing the European Community. The Article authorizes the Council to pass directives in order to bring closer statutory, enforcement and administrative provisions of member states that directly affect the establishment or operation of the common market.

Secondly, income taxes, as direct forms of taxation are an important and valuable tool of fiscal policy used by particular states, influencing social and economic life and it is hard for politicians to get rid of this way of exerting influence. Non-fiscal functions of taxation can easily be realized with income taxes. The process of tax law harmonization will not eliminate the stimulation function which involves using different tax structures, as visible differences in the development of particular states and regions as well as specific traditions of national tax systems will require the (temporarily) application of various types of instruments and tools of tax policy.

Thirdly, directives concerning the harmonization of direct taxes must be passed with majority of votes, which accounts for the lack of unanimity in this area (de Goede, 2003, p. 130).

Fourthly, progress in income tax harmonization evokes the fears of losing tax sovereignty and leads to hardening positions by member states towards processes aimed at harmonizing income taxes.

Fifthly, EU countries have various rules of rewarding employees, establishing incomes from pensions and shaping costs of obtaining revenue and expenses which lower the taxation base.

Apart from the above directive, EU countries have been given freedom in shaping other principles of personal income taxation. In this sense, the principles of personal income taxation are not an area where Polish standards can be adjusted. European Union countries independently decide on the structure of costs of obtaining revenues, the scope for tax reliefs and exemptions, the way in which things progress, etc. (Hamakers, Holmes, Głuchowski, Kardach, and Nykiel 2006). In spite of the lack of directives normalizing principles of individual income taxation, such principles are self-created and the burden levels equalize. We can say that due to the principle of competitiveness included in the tax law, member states make adjusting attempts in their adopted tax structures.

This is to increase the attractiveness of their tax systems. Competition between tax systems forces certain solutions in national tax systems, aimed at bringing closer the structures of certain taxes in order to ensure the optimal functioning of the common market. Thus “quiet harmonization” is a consequence of progressing competition among national tax systems in particular taxation forms. The effect of quiet harmonization is bringing closer the structural solutions in personal income tax in European Union states (Cullen and Gordon 2002). 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 (Krajewska, 2010; Hall and Rabushka 2000).

4. Research Methodology

The aim of the paper is to determine whether harmonization of personal income taxation in the European Union countries is possible and desirable. The assessment of the possibility and desirability of harmonizing this form of taxation 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.

In order to accomplish such research goals we need to differentiate the following research schemes, that is the ways of coordinating activities:

Comparative research, aimed at revealing the differences and similarities between personal income tax structures in the European Union countries, taking into account the rulings of the European Court of Justice and potential areas of coordinating and harmonizing the elements of PIT structure.

Review research, consisting in the analysis of the elements of PIT technique, taking into consideration ways and challenges of personal income taxation harmonization process and tax competition and the phenomenon of quiet harmonization

A case study devoted to the evaluation of the ECJ rulings as far as the implementation of tax regulations into national tax systems is concerned (standardizing and harmonizing the elements of PIT structure).

Within the conducted analysis we attempted at verifying the following research hypothesis: there are law, political and social reasons for harmonization of income

taxation of individuals who do not conduct any business activity in the European Union countries.

The analysis and evaluation of the possibilities of harmonizing personal income taxation in the European Union countries will be conducted taking into account four basic criteria. These are:

- Evaluation of economic and social importance (weight) of personal income tax, taking into account its influence on consumption, mobility of workforce, labor supply and starting business activity.
- Evaluation of the influence of direct taxation on economic growth, labor market and economic (macro-economic) policy of the government.
- Scope of originality and individuality of personal income taxation solutions in the European Union countries.
- Evaluation of the influence of 'quiet harmonization' being the result of competition among national tax systems and decisions of the European Court of Justice on unifying construction solutions for personal income taxation.

5. Results and Discussion

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 (Wołowiec, 2011).

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.

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:

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).

Problems of applying (and in what measures) unlimited tax duty 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.

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).

Problems in whether to collect the tax in country of residence or non-residence and in what proportions.

Despite the lack of Directives to regulate the rules of taxing personal income, the rules are emerging spontaneously and tax burdens are slowly equalising. This process is the result of competition between EU member state tax systems—nations extensively are utilising the construction of the personal income tax to utilise the stimulating functions of the tax system, which in turn impacts the possibilities open to spontaneous PIT harmonisation.

Apart from the UE harmonization law (directives), EU countries have been given freedom in shaping other principles of personal income taxation. In this sense, principles of personal income taxation are not an adjustment area from the Polish solutions. In spite of the lack of directives normalizing principles of individual income taxation, such principles are self-created and burden levels equalize. We can say that due to the principle of competitiveness included in the tax law, member states make adjusting attempts in adopted tax constructions. This is to increase

attractiveness of their tax systems. 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 (back door)” is a consequence of progressing competition among national tax systems in particular taxation forms. The effect of quiet harmonization is bringing closer construction solutions in personal income tax in European Union states.

The proof for thesis: (1) on legal impossibility of personal income tax harmonization and (2) progressing “quiet harmonization” (non-legal) is based on the analysis of the following elements of personal income tax technique in European Union states: taxation subject; methods of avoiding double taxation; subject scope of taxation; social issues in personal income tax; system of preferences used in personal income tax; level of tax burden, including relations between levels of income tax rates; tax progression versus proportional taxation – comparative analysis and taxation of capital gains and comparison of personal income taxation rules in Poland and other EU countries and identification of similarities in personal income tax constructions in EU state tax systems.

6. Conclusion and Recommendations

Both labor and capital would benefit from tax harmonization as it would simplify operations and create a more balanced environment that would reduce the need for mobility oriented purely on seeking tax benefits. Both tax rate harmonization and tax rate competitiveness require additional consideration of: the impact of PIT rate harmonization on the state budget and the possible imbalance of public finances (harmonization worsening national budgets, e.g. through the downward integration of tax rates) and the impact of labor mobility on the nation’s economy (income migration further enhanced by PIT rates) (Egger, Nigai, and Strecker, 2019). The economic aims of tax harmonization may be unachievable for legal reasons, since a tax is not only an economic category but also a legal one, and its legal side is affected by:

The relationship between national and EU law, and when considering the supremacy of EU law over national rules, many issues emerge (e.g. conflicting regulations, different interpretations).

The problems of applying (and in what measures) unlimited tax duty in one country compared to applying unlimited tax duty in another country with limited duty, and, finally, how unlimited tax duties should be applied in both countries.

How to formulate and agree upon treaties on avoiding double taxation (not only achieving consensus between nations but also following local political patterns and taxation trends).

The problems of whether to collect the tax in country of residence or non-residence and in what proportions.

Harmonizing income taxes is much more difficult than harmonizing indirect taxes from the practical, technical and legal perspectives. There are many reasons for that: When creating the Treaty of Rome it was decided that direct taxes would not have a notable impact on the operations of the internal market, and that approach led to a lack of appropriate regulations, especially in the area of personal income taxes.

Income taxes, as forms of direct taxation are an important tool for fiscal policy that affects social and economic activities and it is difficult for politicians to abandon this tool for managing national policies.

Directives requiring the formulation of direct tax harmonization must be agreed upon with a majority vote in the national Assemblies (Parliaments), which leads to a lack of consensus on desired aims, costs and benefits and procedures.

Progress in direct tax harmonization creates challenges for the tax independence of nations and leads to the entrenchment of state and elite positions.

EU member states have different rules for remunerating employees, setting incomes from retirement funds and affecting the structure of income-generating costs and expenditures that reduce the tax base.

Harmonization in general is a difficult challenge, and any debate about harmonizing PIT systems brings out major counterarguments:

The further loss of sovereignty in national financial policies, which will inhibit the state's ability to affect economic processes and (especially) social ones. Harmonizing the rules for calculating the basis for taxation and accepting unified rates would mean the transfer of tax-setting prerogatives to a trans-national institution: the EU.

Different social models and retirement systems, when combined with varying degrees of PIT integration with retirement contributions, determine the various financial needs of the state, therefore harmonisation would have to reach far beyond "mere" PIT systems.

The historical, cultural, and social factors that have shaped national tax systems reinforce claims that a path-dependent process will be difficult to reverse.

In the field of taxation and cross-border workers, no rules exist at the EU level regarding the definition of cross-border workers, the division of taxing rights between Member States or the tax rules to be applied.

References:

- Auerbach, A., Hines, J. 2001. Taxation and economic efficiency. NBER Working Paper, No. 8181, 4-12.
- Baiardi, P., Profeta, P., Scabrosetti, R. 2017. Tax Policy and Economic Growth: Does It Really Matter? CESifo Working Paper No. 6343.
- Bradley, J.W. 2021. The States' Multiple Taxation of Personal Income. Case Western Reserve Law Review, Vol. 71, No. 1, 2020. Santa Clara Univ. Legal Studies Research Paper. Available at SSRN: <https://ssrn.com/abstract=3801260>.
- Cullen, B., Gordon, R. 2002. Taxes and Entrepreneurial Activity: Theory and Evidence for the U.S. NBER Working Paper, No 9015, 1-56.
- Cnossen, S. 2001. Tax Policy in the European Union: A review of Issues and Options. Studies in Economic Policy, No. 1, 1-89.
- Corak, M. 2013. Income inequality, Equality of Opportunity, and Intergenerational Mobility. IZA Discussion Paper, 7520.
- Ćurčić, M., Milojević, I., Krunić, N. 2020. Mutual impact of personal income tax and macroeconomic indicators. *Industrija*, 48(3), 27-40. DOI: [10.5937/industrija48-25978](https://doi.org/10.5937/industrija48-25978).
- Davidson, S. 2007. Tax Competition. Much To Do About Very Little. The Center For Independent Studies. CIS Policy Monograph, No. 78, 1-20.
- Druesne, G. 1995. Prawo materialne i polityki Wspólnot i Unii Europejskiej. Scholar, Warszawa, 7-20 (in Polish).
- Egger, P., Nigai, S., Strecker, N. 2019. The Taxing Deed of Globalization. *American Economic Review*, 109(2), 353-390.
- Hamakers, H., Holmes, K., Głuchowski, J., Kardach, T., Nykiel, W. 2006. Wprowadzenie do międzynarodowego prawa podatkowego. LexisNexis, Warszawa, 100-105 (in Polish).
- Hall, R., Rabushka, A. 2005. The flat tax. 2nd edition. Hoover Institution Press & Stanford University, Stanford, 39-72.
- Henman, P. 2007. Updated Costs of Children Using Australian Budget Standards. Queensland: Combat Poverty Agency.
- Holmes, H. 2001. The concept of income: a Multidisciplinary analysis. International Bureau of Fiscal Documentation, Amsterdam, 3-34.
- Inventory of Taxes In the Member States of the European Union. European Commission 2011-2019, Luxembourg.
- James, S., Nobes, Ch. 2012. The Economics of Taxation. Fiscal Publications, Birmingham, 3-19.
- Kesti, J. European Tax Handbook 2012-2019. Amsterdam: International Bureau of Fiscal Documentation.
- KPMG's Individual Income Tax and Social Security Rate Survey 2012-2019. Swiss: KPMG, 2012-2019.
- Krajewska, A. 2012. Podatki w Unii Europejskiej. PWE, Warszawa, 80-105.
- Mazurek-Chwiejczak, M. 2016. Trends in Personal Income Tax Progression in OECD Countries in the Context of Income Redistribution. *Acta Universitatis Lodziensis Folia oeconomica*, 4(324), 181-192. DOI: [10.18778/0208-6018.324.12](https://doi.org/10.18778/0208-6018.324.12).
- McGee, R. 2004. The Philosophy of Taxation and Public Finance. North-Western Publishing, Boston-Dordtech-London.
- Structure of European Union Taxation Systems 2010-2019. Luxembourg: European Commission Taxation and Customs Union - EUROSTAT.

- Tax policies in the European Union. Luxembourg: Publications Office of the European Union, 2020, 15-33.
- Taxation Trends in The European Union. Luxembourg: Publications Office of the European Union Commission, 2012-2019.
- Taxation trends in the European Union. 2019. Data for the EU Member States, Iceland and Norway 2019 edition, Directorate-General for Taxation and Customs Union (European Commission), Luxembourg: Publications Office of the European Union Commission.
- Taxation trends in the European Union. 2020. Data for the EU Member States, Iceland and Norway 2020 edition, Directorate-General for Taxation and Customs Union (European Commission), Luxembourg: Publications Office of the European Union Commission.
- Torres, C., Mellbye, K., Brys, B. 2012. Trends in Personal Income Tax and Employee Social Security Contribution Schedules. Working Papers, No 12, 1-56.
- Wróbel, A., Muedecki, A. 2011. Harmonizacja prawa podatkowego w Unii Europejskiej. Instytut Wydawniczy Europrawo, Warszawa, 34-56 (in Polish).
- Wołowiec, T. 2011. Wybrane zagadnienia harmonizacji opodatkowania osób fizycznych. Finansowy Kwartalnik Internetowy: e-Finanse, vol. 7, No. 2, 34-52 (in Polish).
- Wołowiec, T. 2019. Economic Effects of Taxation by Income Taxes in European Union Member States (Outline of the Problem. International Journal of New Economics and Social Sciences, 1(9), 29-49. DOI 10.5604/01.3001.0013.3014.
- Wołowiec, T. 2020. The systems family income taxation in Poland. Teka Komisji Prawniczej PAN Oddział w Lublinie, XIII/2, 545-563.
<https://doi.org/10.32084/tekapr.2020.13.2-42>.
- Wołowiec, T., Kępa, M. 2020. Profamily tax regulations in law (selected issues). Teka Komisji Prawniczej PAN Oddział w Lublinie. Vol XIII/1, 493-518.
<https://doi.org/10.32084/tekapr.2020.13.1-37>.
- Wołowiec, T. 2019. Income taxation versus fiscal Policy (selected problems). In: Bezpieczeństwo prawne i bezpieczeństwo obrotu prawnego w Polsce. ed. Jan Mojak, Agnieszka Żywicka, Leszek Bielecki. Innovatio Press Wydawnictwo Naukowe Wyższej Szkoły Ekonomii i Innowacji, Lublin, 237-247.
- Wołowiec, T. 2018. Potential and possibility ways of personal income taxation harmonization process: Comparative Economic Research. Central and Eastern Europe, 21, Nr 3/2018, 109-130. DOI: <http://dx.doi.org/10.2478/cer-2018-0022>.
- Wołowiec, T. 2018. Economic and social aspects of progressive and proportional taxation of incomes. International Journal of New Economics and Social Sciences, 2(8), 221-252. DOI 10.5604/01.3001.0012.9939.
- Wołowiec, T. 2016. Ways of personal income taxation harmonization process. Wyższa Szkoła Ekonomii i Innowacji w Lublinie, Lublin, 1-140.
- Wołowiec, T., Bogacki, S. 2020. Opodatkowanie dochodów osobistych a zasada sprawiedliwości opodatkowania, Biuletyn Stowarzyszenia Absolwentów i Przyjaciół Wydziału Prawa. KUL, 17(10), 7-32 (in Polish).
- Zee, H. 2005. Personal income tax Reform: Concepts, Issues, and Comparative Country Development. Working Paper, No. WP/05/87, 3-58.