Comparative Analysis of German, Russian and Greek Taxation Systems

Alyona KOUZNETSOVA*
Rostov State University of Economics, Russia

Abstract

This article analyses the efficiency of the German tax system designed for tax policy analysis. German experience is built on decades of innovation. So it can be considered as an example for countries as Russia and Greece. On the other hand, the Russian tax system has its own history and is grounded, which means that it can also be considered as a way of developing the state's tax policy. The objective of this paper is to provide a comparative analysis on aspects of tax systems and their administration across EU and selected non-EU countries in order to explain some similarities and differences in the taxation of these systems in order to identify a new development path for the Greek economy.

Keywords: Tax system, taxation, corporate income tax, direct and indirect taxes, fiscal policy, investment climate, economic crisis.

Introduction

There are many tasks in society that cannot be performed by individuals alone. These tasks include the provision of education, public infrastructures, health care, a social safety net and internal and external security. In such areas the state acts on society's behalf. Its activities are financed from tax receipts and they are the state's most important source of revenue. Without this resource, the state would not be able to take action in the interests of all citizens.

Fair distribution of incomes and improvement of the well-being of society is the goal of any state that many countries of the world declare. The taxation system is a fundamental factor in the functioning of the national economy and an important element of the state's financial system. The taxation system is a set of taxes and fees levied on the payers in the manner and under the conditions determined by the tax legislation.

Analysis of the peculiarities of the taxation system of Germany is of particular interest, since this country is the third largest country in the world in terms of economic development, has a fairly high standard of living, and is distinguished by the social orientation of the state's financial policy. This fact allows us to take the German tax system as a benchmark for such rapidly developing countries as Russia and Greece.

* **Corresponding address:** Alyona KOUZNETSOVA, Rostov State University of Economics, Rostov on Don, Russia. **Email:** kuznecova.alena969@gmail.com

Of particular interest is the study of corporate income tax in a developed country, like Germany and developing, like Russia. The study of the tax systems of countries with different economic past and different potential will allow to determine the ways of development of the economy of Greece, which is today in a crisis situation.

1. THE MAIN CHARACTERISTICS OF THE GERMAN, RUSSIAN AND GREECE TAXATION SYSTEMS

Germany is considered to be a developed country, but Russia and Greece are rapidly developing countries. In countries with developed economies, the following areas predominate [1]:

- a policy of establishing reasonable taxes that promotes the development of entrepreneurship by providing a favorable tax climate;
- a policy that provides for a sufficiently high level of taxation, but with significant social protection of the population.

In my opinion, it is worthwhile to bring key characteristics of each of the taxation systems.

The tax systems of Germany and Russia are similar as these are two federal states. Taxation systems are three-level ones:

- in Russia it is federal, regional and local budgets [6];
- in Germany - federal, land (regional) and community (local) budgets [3].

The structure of some most prominent German taxes and their rates are shown on the figure 1.

So even if Germany is a federal state, 95% of all taxes are imposed on a federal level. The income of these taxes is allocated by the federation and the states as following (Art. 106 Grundgesetz):

The federation receives exclusively the revenue of:

- Customs
- Taxes on alcopops, cars, distilled beverages, coffee, mineral oil products, sparkling wine, electricity, tobacco, and insurance
- Supplement on income taxes so-called solidarity surcharge (Solidaritätszuschlag)
- The states receive exclusively the revenue of:
- Inheritance tax, real property transfer tax
- Taxes on beer and gambling
- Fire protection tax

The municipalities and/or districts receive exclusively the revenue of:

- Real property tax
- Taxes on other beverages, dogs, and inns.

Fig.1. Structure of the main taxes of the German taxation system and their rates, %

Taxes in the countries in question are the main means of spending and the main source of state revenues, about 80% of the budget in these countries is tax revenue [2]. At the heart of the German tax system is the principle of a plurality of taxes, there are more than 50, in contrast to Russia, where there are 13 basic taxes [3]. Unlike in Russia, German taxes have a large tax burden, especially for those with high incomes.

The structure of taxes and their rates in Russia can be seen in the figure 2.

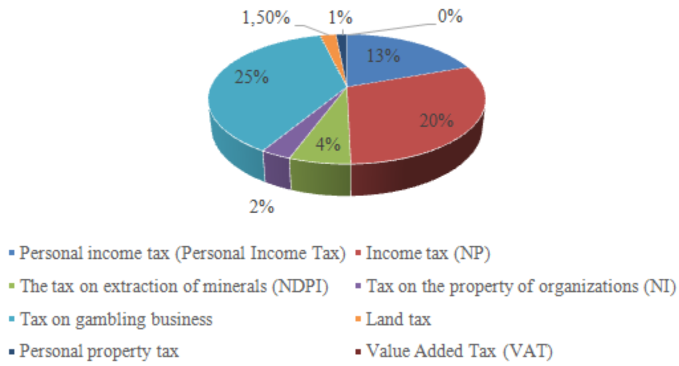

Fig. 2. Structure of the main taxes of the Russian taxation system and their rates, %

In Russia, all taxpayers are equal among themselves, they pay the same proportions to their budget from their incomes. Thus, Germany has a progressive tax system. In Russia, I think this is not possible, since an increase in the tax burden will have a negative impact on the middle and lower class of people, and those with high incomes will try to hide their incomes, thereby revenues may fall, which will affect low-income families. The state helps at the expense of tax revenues.

Taxes - the main component of public revenues in Greece. Residents of Greece (individuals and legal entities) receiving income in a state that is a party to a treaty on avoidance of double taxation with Greece must submit to the tax authorities of that country a document confirming their tax residence in Greece and then apply the provisions of the contract on paying taxes to them directly [5].

2. CORPORATE INCOME TAXES OF GERMANY, RUSSIA AND GREECE

Taxation of profits is carried out in all developed countries of the world without exception, taking the form of income tax or income of legal entities or corporate tax. Corporate income tax is one of the budget-forming taxes in any country. By its level and terms of collection it is possible to determine the investment climate in the country, its attractiveness for both domestic and foreign investors. Therefore, I consider it expedient to start my own study of the state taxation system by studying the corporate taxation.

A corporate tax is a levy placed on the profit of a firm to raise taxes. After operating earnings is calculated by deducting expenses including the cost of goods sold and depreciation from revenues, enacted tax rates are applied to generate a legal obligation the business owes the government. Rules surrounding corporate taxation vary greatly around the world and must be voted upon and approved by the government to be enacted.

Paying corporate taxes can be more beneficial for business owners when compared to paying additional individual income tax. Corporate tax returns deduct medical insurance for families as well as fringe benefits including retirement plans and tax-deferred trusts. It is easier for a corporation to deduct losses. A corporation may deduct the entire amount of losses, while a sole proprietor must provide evidence regarding the intent to earn a profit before the losses can be deducted. Finally, profit earned by a corporation may be left within the corporation allowing for tax planning and potential future tax advantages.

As can be seen on the graph, despite the worldwide trend of corporate tax reduction, Greece from the crisis 2010-2011 keeps a steady trend of tax increase. Therefore, in my view, it is necessary to study the principles of corporate taxation in Russia and Germany, and to identify the problems of the Greek system.

The evolution of corporate tax rates in Germany, Russia and Greece in comparison with Europe and world average tax rates for the previous decade 2007-2017 is shown in the figure (fig.3).

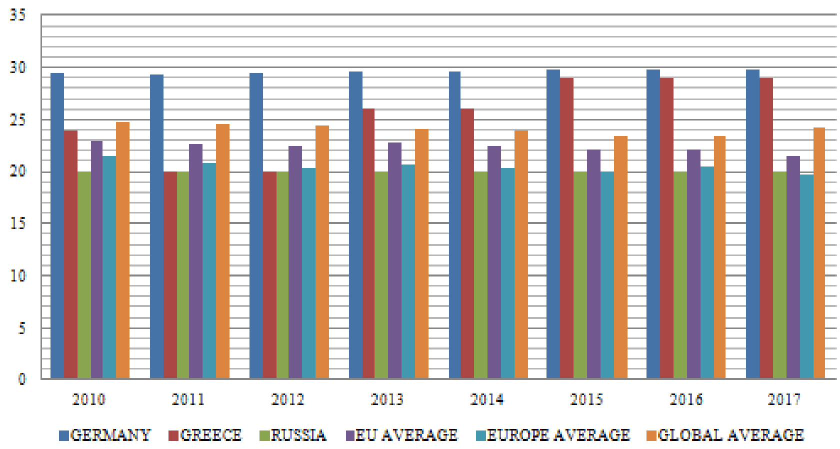

Fig.3. Corporate tax rates by region, average World and European rates, % [1]

The regional features of corporate income tax rates highlighted in the graph will be considered below for each of the states.

2.1 Corporate income tax in Germany

An interesting feature of the above chart is the fact that the corporate tax rate in Germany is at the highest level, compared with other regions (fig.4).

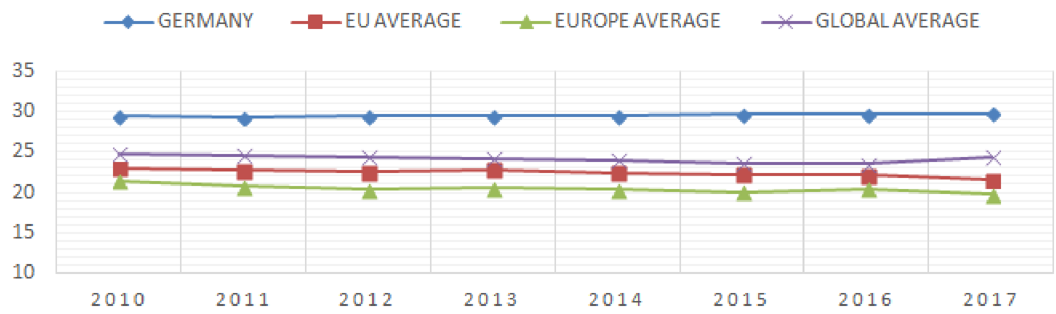

Fig.4. Corporate income tax rate in Germany with average European and World rates, % [2]

As I have mentioned in the first paragraph, the German tax system is considered one of the most organized and justified in the world. Therefore, it is worth investigating why the high rate of corporate income tax not only does not spoil the investment attractiveness of the country, but also serves as an indicator of its stability.

Germany taxes its corporate residents on their worldwide income. However, most double tax treaties exempt income attributable to a foreign permanent establishment (PE). Non-residents with PE or property income are taxed by assessment on German-source income; those earning royalties and dividends are taxed by withholding at source. Interest paid abroad is, in most cases, free of German tax altogether.

German business profits are subject to two taxes, corporation tax and trade tax (fig.5).

Every tax return is under audit, therefore if the tax assessment is issued and is not preliminary, the assessment can only be changed in the future by the occurrence of extraordinary circumstances (e. g. tax evasion).

As a rule, the income tax return (*Einkommensteuererklärung*) should be filed by May 31 of the year following the one in which the income was received. If you use the assistance of a tax consultant, you have an automatic extension to file until December 31. In some circumstances that date can even be extended to February 28. There may be penalties and interest assessed if the return is filed late.

There are a few situations where the taxpayer is required to pay taxes even though the income is less than the personal allowance, especially when tax-exempt income (such as foreign-sourced income) must be considered for the determination of the applicable income tax rate (progression clause). Taxes are then assessed based on a sliding scale.

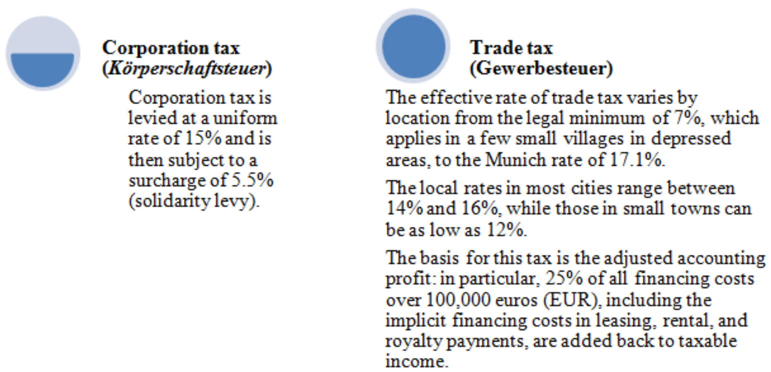

Fig.5. Taxes paid for the business profits in German, 2017

If the basis for the two taxes is identical (unlikely in practice), the overall burden on corporate profits earned in Munich would be 33%. In Frankfurt, the burden would be 32%. In Berlin, it would be 30.2% [2].

Based on the above data on corporate tax rates in Germany, we can draw the following conclusion. Corporate tax in Germany has a fairly variable scale of taxation among companies of residents and non-residents. Special tax breaks and deductions allow small companies to avoid high taxation. However, the tax rate is high for, and therefore only stable and experienced corporation get the development opportunity, while some innovative projects cannot be realized because of the exorbitant tax burden for beginning producers.

2.2 Corporate income tax in Russia

As we see on the graph, the corporate tax rate in Russia for 10 years 2007-2010 remains stable at 20%. It is worth noting that the corporate tax rate in Russia is at the level of the average European, but much lower than the global and EU average levels of the tax rate (fig 6).

Russian taxation practice shows the most stable result among the noticed countries, which indicates a favorable investment climate in the country. We will study in more detail the features of the corporate tax of the Russian Federation. Russian legal entities pay tax on their worldwide income (credit relief is available for foreign tax paid, up to the amount of the Russian tax liability that would have been due on the same amount under Russian rules).

The maximum CIT rate for all taxpayers in the Russian Federation has been set at 20%. In the period 2017 through 2020, a new allocation proportion applies:

- 3% of CIT revenues is allocated to the federal budget,
- 17% is allocated to the budgets of the relevant constituent regions (in 2016 the allocation proportion was 2% and 18%, respectively). Individual Russian constituent regions may bring their CIT rates down to 12.5%; thus, the total minimum tax rate may be reduced to 15.5% [3].

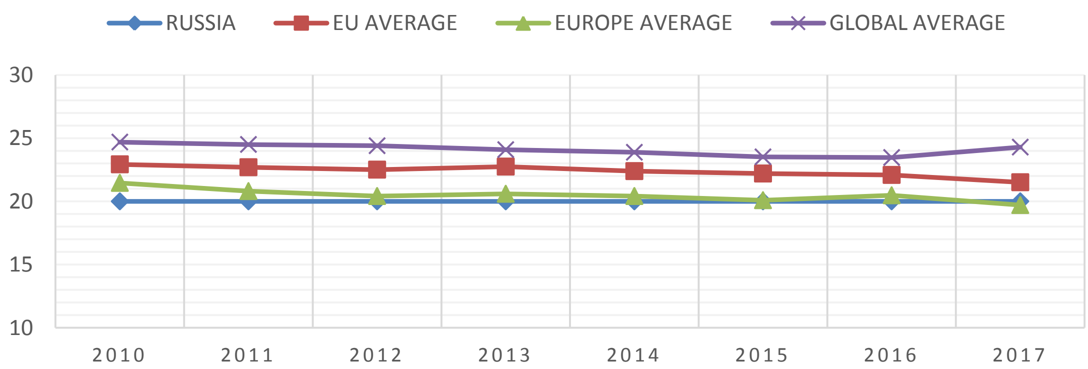

Fig.6. Corporate income tax rate in Russia with average European and World rates, % [3]

Foreign legal entities (FLEs) pay tax on Russia-source income derived through a permanent establishment (PE) at 20% and are also subject to withholding tax (WHT) on income from Russian sources not related to a PE (at rates varying from 10% to 20%, depending on the type of income and the method used to calculate it).

Transformations in the sphere of tax legislation in Russia are now aimed at expanding special opportunities for small and medium-sized businesses. In particular, the corporate tax in the Russian Federation has a large number of tax deductions and special tax regimes for small businesses and individual entrepreneurship. Spatial tax regimes allow you to replace corporate tax and some other taxes with a single tax. Paid by organizations once a year. Such tax practice allows supporting the domestic producer of scarlet business. This has a favorable effect on the country's GDP and allows increasing the tax potential.

2.3 Corporate income tax in Greece

Unlike the corporate tax rates of Germany and Russia showing stability, the Greek corporate income tax has grown dramatically over the past decade 2010-2017 (fig7). This steady increase in tax rates is a consequence of the Greek crisis and the obligations imposed on the Greek government by international creditors.

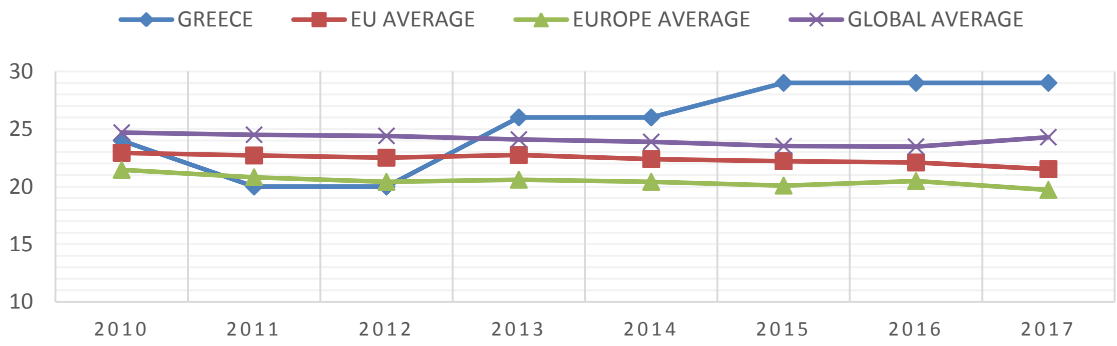

Fig.7. Corporate income tax rate in Greece with average European and World rates, % [4]

I have examined in detail the taxation of corporations in Greece and revealed some shortcomings of the state taxation system, preventing its exit from the prolonged economic crisis.

In turn, the Greek tax system assumes more complex conditions for corporate taxation. Resident corporations are taxed on their worldwide income. Non-resident corporations are taxed in Greece on any Greek-source income they derive.

The corporate income tax (CIT) rate of legal entities is 29%.

Shipping companies

The Greek tonnage tax regime model intends to tax shipping activity and applies to Greek or foreign ship-owning companies with vessels flying a Greek flag and foreign ship-owning companies with vessels flying a foreign flag that maintain a ship management company in Greece that is exclusively engaged in ship management activities. The Greek tonnage tax regime applies to vessels of ‘A’ and ‘B’ category that are either flying a Greek or foreign flag. In the case of vessels flying a foreign flag, the foreign ship-owning company should maintain a ship management office in Greece. Category ‘A' vessels include cargo vessels, tankers, steel hull vessels for dry or liquid cargo that fly to/between foreign ports, passenger vessels, drilling platforms, etc. Category ‘B' vessels include small boats and any other motor vessels not listed under category ‘A’.

The gross tonnage is calculated by multiplying coefficient rates by each scale of gross registered tonnage. This taxable tonnage is then multiplied by an age-corrected rate (fig 8).

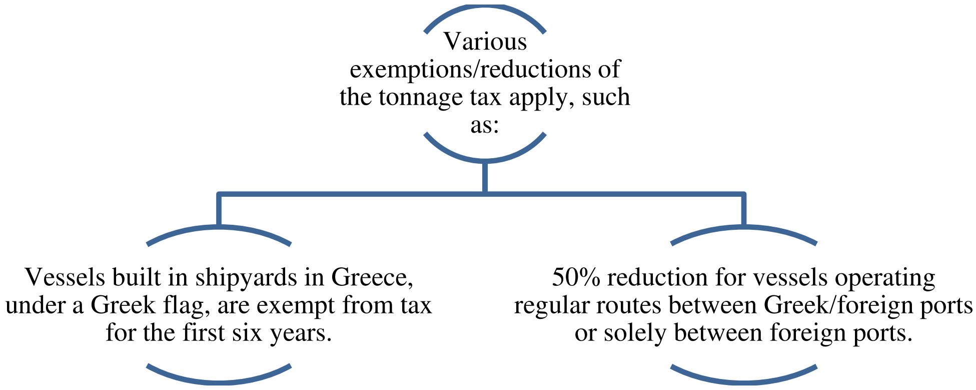

Fig.8. Various exemptions/reductions of the tonnage tax apply

This tax burdens the ship owners or ship-owning companies, while the ship management companies are jointly and severally liable for the payment thereof.

For calculating the tonnage tax (tax rates and tax brackets, criteria) and the special tax return and payment of tax, the provisions on the tonnage tax payable for Greek flagged vessels apply in analogy. A credit for the tonnage tax paid abroad is provided.

Annual contribution imposed on foreign ship management companies

An annual contribution (referring only to fiscal years 2016 through 2019) is imposed on offices or branches of foreign enterprises that have been established in Greece by virtue of Article 25 of Law 27/1975 and that are engaged in the chartering, insurance, average (damage) settlements, purchase, chartering or shipbuilding brokerage, or chartering of insurance of ships under Greek or foreign flag of total tonnage over 500 shipping tons, as well as the representation of ship owner companies or undertakings, whose object is identical to the above-mentioned activities.

This contribution is imposed on the total amount of imported foreign exchange, calculated on a minimum 50,000 United States dollars (USD), and, for the years 2016 through 2019, the tax scale is as follows (Table 1):

Table.1. The tax scale for the total amount of imported foreign exchange, 2016-2019[1]

Bracket of annual total foreign exchange (USD)	**Rate (%)**	**Tax per bracket (USD)**	**Total foreign exchange (USD)**	**Total tax (USD)**
200,000	7	14,000	200,000	14,000
200,000	6	12,000	400,000	26,000
Excess amount	5			

A special tax return for calculating the contribution based on the imported foreign exchange of the previous year should be filed within March of each year. Upon filing of said tax return, one-quarter of the annual contribution is payable. The remaining contribution is paid in three instalments (June, September, and December).

The Greek tax system is the most critical of the ones studied above. And this means that the current tax regime is inefficient and will not increase the budget revenues in the country. Of course, there are many reasons that influence the long-term presence of Greece at the bottom of the crisis pit. But in my opinion corporate tax, as one of the main budget-forming taxes, has a direct impact on the entire fitness system.

Therefore, I consider it necessary to identify new ways of development for the tax system in Greece, based on the experience of Germany and Russia in the field of corporate taxation.

3. WAYS OF REFORMING THE GREEK TAXATION SYSTEM FOR THE COUNTRY'S EXIT FROM THE ECONOMIC CRISIS

Based on the above analysis of the three tax systems, the taxation of corporate income, I can draw the following conclusions. Greece today is a country at the bottom of a crisis pit, but the situation is not hopeless. For Greece, two ways for further development and reform are possible: “the German way” and “the Russian way”.

Germany offers one of the most profitable taxation systems among the large industrialized countries. The aggregate tax burden for corporations is just under 30%, and in some local municipalities even much lower tariffs are applied. In Germany, there is no unified national rate for corporate income taxation.

Instead, the taxation of companies consists of two main components:

- corporate income tax + surcharge on solidarity
- trade tax.

Corporate profit tax and a solidarity bonus always have a fixed rate, while the size of the field tax differs from region to region. The total sum of these two components of taxation and forms the aggregate tax burden. Because of the addition of fixed and variable values, the spread of the aggregate tax burden sometimes reaches 10%, depending on the region.

This means that in this case, Greece should follow the EU's chosen development path. So, the introduction of a single corporate income tax rate in Europe is quite convenient for countries like Germany and France, but will this be a way out of the crisis for Greece?

Today's tax rate of 29% seems to be an exorbitant burden for local producers. That is, in the case of an increase in the corporate tax rate and its equation with the European average level [7], only international corporations will benefit, while local producers may face a wave of further bankruptcies.

Thus, this development path seems possible, but only if the assistance from European creditors increases, which in turn will require further measures to increase the tax burden and reduce payments to the population.

It is worth paying attention to the concept of a tax resident in Greek law-according to Art. 10 of the Greek Civil Code, the jurisdiction of the organization is determined by the country in which its seat is located, which is often interpreted as the country of registration of such an organization. However, in practice, when deciding on the residence of a company, the principle that the "nationality" of a company is determined by the territory from which the actual management of activities (place of effective management) is implemented can be used. This leads to the fact that the company is not recognized as a legal entity and as a result does not become a taxpayer.

In this case, the Russian experience of determining corporate tax payers can be useful.

According to Art. 246 of the Tax Code of the Russian Federation (Tax Code of the Russian Federation), payers of income tax are not only Russian organizations, but also foreign organizations operating in the Russian Federation through permanent missions and (or) receiving income from sources in the Russian Federation.

The main principle of taxation of income of foreign organizations from sources in the Russian Federation, as defined in Chapter 25 of the Tax Code, is that only the income of a foreign organization whose source is in the Russian Federation is liable to taxation in the Russian Federation.

Another principle is that income is subject to taxation at the source of payment, if it is not related to the activities of a foreign organization in the Russian Federation through a permanent establishment. In this case, the source of income payment becomes a tax agent, and in accordance with Art. 24 of the Tax Code imposes an obligation to determine the amount of tax, withholding this amount from the income of the taxpayer (foreign organization) and transferring the tax to the budget.

In accordance with Art. 24 of the Tax Code of the Russian Federation, tax agents are obliged:

- Correctly and timely calculate, withhold from the funds paid to taxpayers and transfer to relevant budgets (extrabudgetary funds) the appropriate taxes;
- Within one month in writing to inform the tax authority at the place of its registration about the impossibility to withhold tax from the taxpayer and on the amount of the taxpayer's debt;
- Keep records of taxes paid to taxpayers, withheld and transferred to budgets (extra-budgetary funds), including personally for each taxpayer;
- To submit to the tax authority at the place of their registration the documents necessary to monitor the accuracy of the calculation, withholding and transfer of taxes.

The introduction of Russian experience in Greek tax practice will avoid the diversion of financial flows from the state budget abroad. With the correct tax administration, this will allow increasing the collection rate among residents and non-residents without increasing the corporate rates.

CONCLUSION

Based on my research, I want to highlight some of the positive and negative aspects of the tax systems of the three countries, Germany, Russia and Greece.

Corporate tax in Germany, as many others has a fairly variable scale of taxation among companies of residents and non-residents. Special tax breaks and deductions allow small companies to avoid high taxation. However, the tax rate is high for, and therefore only stable and experienced corporation get the development opportunity, while some innovative projects cannot be realized because of the exorbitant tax burden for beginning producers.

Furthermore transformations in the sphere of tax legislation in Russia are now aimed at expanding special opportunities for small and medium-sized businesses. The corporate income tax in the Russian Federation has a large number of tax deductions and special tax regimes for small businesses and individual entrepreneurship. Spatial tax regimes allow you to replace corporate tax and some other taxes with a single tax paid by organizations once a year. Such tax practice allows supporting the domestic producer of scarlet business. This has a favorable effect on the country's GDP and allows increasing the tax potential.

The Greek tax system is only at the stage of reform and can adopt the positive aspects of both the tax system of Russia and Germany. I would like to note that Greece today is on the verge of extensive reforms. Perhaps, one of the ways of developing the Greek system of the national economy will be “Grexit”, so expected among the Greek population. Or Greece can go through a deep and long reform of the entire financial system, including taxation. In this case, Greece can adopt the positive experience of both Russia and Germany and avoid the mistakes that could be made by these economies.

References

[1] European Central Bank [Electronic resource]. Access mode: http://www.ecb.europa.eu/

[2] Federal ministry of finance of Germany [Electronic resource]. Access mode: http://www.bundesfinanzministerium.de/

[3] Federal Tax Service of the Russian Federation [Electronic resource]. Access mode: https://www.nalog.ru/

[4] General Secretariat of Tax and Customs Issues of Greece [Electronic resource]. Access mode: www.gcsl.gr/

[5] Ministry of finance of Greece [Electronic resource]. Access mode: http://www.minfin.gr/

[6] Ministry of finance of the Russian Federation [Electronic resource]. Access mode: https://minfin.ru/ru/

[7] The World Bank [Electronic resource]. Access mode: http://www.worldbank.org/