

PERSONAL INCOME TAX AND COMMUNITY TAX LEGISLATION

The process of direct taxes harmonization covered different income tax regulations which limited the freedom of income flow in form of dividends, interests, license fees and capital between Community members. The differences found in direct taxations are less dangerous for the functioning of the common market. Further elements of corporate income tax will be harmonized next – tax rates and taxation base.

The main element differentiating direct taxation is its slight degree of normative harmonization. Community law in direct taxes can only be based on general regulations. Income taxes influent social and economic life and it is hard for politicians to get rid of this form of exerting influence. Non-fiscal functions of taxation can be easily realized with income taxes.

Directives concerning harmonization of direct taxes must be passed with majority of votes, which accounts for lack of unanimity in this area. Progress in income tax harmonization evokes the fears of losing tax sovereignty and leads to stiffening positions by member states towards processes aimed at harmonization of income taxes.

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

Tax competition is a phenomenon directly related to globalization processes, especially to the growth of international mobility of employees. Harmonization of personal income tax has never been an important factor for creating a common market or for free flow of people and capital.

It is worth remembering that it is possible to deduct from obtained income (or – respectively – tax) mandatory social and health insurance contributions paid in another country of the European Union, European Economic Area or Switzerland. Granting tax reliefs in PIT in the source country (tax credit, joint taxation) depends on where a taxpayer obtains most of their taxable incomes. Member states are competent to determine the reasons for taxation in order to avoid double taxation via international agreements.