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Impact of Tax System in Poland, Transition Economies and the European Union on Competitiveness of the Economy

Abstract

The paper focuses on the problem of tax competition and harmonisation of taxes in the EU. The author states that the rules of corporate taxation should be harmonised. However, unification of the rules of taxation for legal persons is more urgent than harmonisation of tax rates. The tax systems in the „old" and „new" EU countries will be analysed, as well as indicated possibilities and perspectives of harmonisation of the CIT rates within the EU. The question of fair tax competition and tax dumping is also discussed, especially in the reference to transition economies.

1. Introduction

Just after May, 1, 2004, enlargement of the European Union, important controversies arose around significant differences in the CIT rates in the „old" and „new" EU countries. Leaders of the countries with the highest share of public spending in GDP, and the same with the highest tax burdens (Germany, France, Sweden) became to accuse the new EU members of unfair competition due to reduction of the CIT rates. They demanded increasing the CIT rates to adjust them to the average level of the rates in the Western Europe.

Indignation of a part of western society represented in the most heated form by German Chancellor Gerhard Schröder and President of France Jacques Chirac grounds on two arguments. The first one reveals misgivings that the low

CIT rates in the new EU countries may accelerate outflow of investment from the West to the East, which may result in weakening the rate of economic growth and in increase in the unemployment rate. The next argument sounds like a kind of blackmail. The leaders of mentioned countries proposed harmonisation of the CIT rates on the EU level. Moreover, they suggest that refusal of acceptation of this idea would result in change of the rules of conferring the structural funds for the new EU member countries.

Discussion on tax competition and harmonisation of taxes in the EU is just arising. The starting point should be analysis of the tax systems in the „old" and „new" EU countries, definition of the „tax competition" and „tax dumping" phenomena, as well as indication of possibilities and perspectives of harmonisation of the CIT rates.

2. Tax competition. Theoretical aspects, the essence and objectives of tax competition.

In literature a conviction prevails that in the conditions of proceeding globalization a government is not able to introduce high tax burdens as producers can easily transfer their economic activity to the countries or regions with lower level of taxation. Does it mean a continuous reduction of tax burdens?

H. W. Sinn's concept is a typical example of neoclassical view on tax competition (Sinn 1993). It rests on two basic assumptions of the neoclassical model, namely: 1) perfect mobility of production factors, 2) profit maximization as the main objective for the producers and wages maximization as the main objective for the workers. The most mobile production factors, i.e. capital and skilled workers are able to avoid taxation via migration. As a consequence, according to Sinn, a „race to the bottom" would emerge, ruining competition amongst the countries, which – in an extreme case – would lead to zero tax rate with reference to these production factors. Simultaneously, decrease in government revenues would mean necessity of dramatic cuts in public spending and disturbances with realization of the social fairness rules. For this reason Sinn proposes to increase a role of institutional factors, and to implement centralization and harmonisation of taxes levied on mobile production factors.

Acceptation of more realistic assumptions, as well as observation of taxation trends (rates, effective income burdens, share in GDP) does not confirm the existence of race to the bottom-to zero tax rates.

Sinn's model should be enlarged by at least three additional assumptions (Sepp, Wróbel 2003, pp. 41–42):

1. Flow of production factors (migrations to less-taxed regions) is connected with some costs that should be taken into account and compared with potential advantages resulting from lower tax rate on a given production factor.
2. In a short run both capital owners and skilled workers care not only for current profit (income), but for many other factors as well.
3. Alternative costs of tax reduction should be regarded. For example: if a country diminishes the CIT rate to improve competitiveness of its tax system and to attract foreign capital, it will simultaneously have to limit supply of public goods, such as infrastructure or public administration. This means that, like in a case of production decisions, an optimal level of taxation may be designed as a point of equality of marginal profits of tax reduction with alternative costs of this reduction. Assuming that despite reduction of the CIT rates budget revenues will not decrease, the other taxes, like PIT or VAT should be increased. This, in turn, will reduce disposable income and global demand. Again, alternative cost emerges that should be included into the account. As a consequence, tax rates' competition will never lead to maximal reduction of taxes (to zero) – (Siebert 1990, pp. 53–84).

Tax competition is commonly viewed as reduction of domestic tax rates or introduction of tax reliefs and tax exemptions.

Observation of hitherto process of tax competition allows to distinguish two forms of this phenomenon (Sepp, Wróbel 2003):

1) crawling tax competition;
2) unfair tax competition.

The first form means a long run, relatively slow process consisting in gradual reduction of tax rates in particular countries (reduction may be initiated by some countries and imitated by the others). This in turn conduces to drop in the enterprises' tax burdens, which means higher incomes, more financial sources for investment and for introduction of technical progress.

Unfair competition consists in isolated activities of single countries motivated by the only objective-reduction of the CIT rates in order to attract foreign investors. Rapid reduction of the CIT rates in Ireland (Hofheinz 2001; Carney 2001) and in Hungary was (ODCE Hungary 2000) treated as an unfair competition. Sometimes such activities are called „tax dumping". It is worth mentioning, however, that economic literature explains this concept in different ways. An opinion may be found that reduction of tax rates for all economic agents (both domestic and foreign) is treated as tax competition. However, tax privileges only for foreign investors should be treated as tax dumping (Krause-Junk 2002, pp. 63–68).

As a rule, all transition economies, especially at the beginning of transformation process, created strong tax incentives for inflow of foreign capital. There exists an argument to treat this strategy as fair competition rather than as tax dumping. In a case of less developed countries, lower tax burdens with regard to foreign capital may be treated as a risk premium, e.g. remuneration for investment in a country where financial risk is higher (Sepp, Wróbel 2003).

The objective of tax competition is to increase attractiveness of a country as a place for capital location and/or to stimulate economic activity of the country.

The first aim is strongly exposed in transition economies due to significant impact of direct foreign investment on economic activity in those countries (Sedmihradsky, Klazar 2002). Thanks to foreign capital, inflow of new technologies and management methods, improvement of financial discipline as well as increase of exports are possible. For this reason, all the countries of Central and Eastern Europe, especially at early stage of transformation, implemented wide range of tax instruments, including tax exemptions or meaningful reduction of tax burdens for the Western investors (for a long period, up to ten years).

The next goal of reduction of tax rates, e.g. stimulation of economic activity of the country, is especially stressed in the Polish literature. L. Balcerowicz in „The White Book of Taxes" initiated a discussion on fundamental reform of a tax system aiming at reduction of taxes. The objectives of the reform were to be as follows (*Biała księga podatków* 1998, p. 57):

1) stimulation of economic growth mainly through investment incentives, creation of new jobs, increase in individual work productivity, improvement of skills, higher profitability of legal incomes etc.;
2) higher social confidence in law, elimination of tax abuses, simplification of tax system;
3) adjustment of tax system to the European Union demands;
4) implementation of tax competitiveness, e.g. elimination of outflow of workers, firms, and capital to the countries with more friendly taxation;
5) regard to changes resulting from transformations in other domains of economic life, for example: wider activities of self-governments or health care system reform.

Fundamental tax reform proposed in the White Book (finally: 22% of PIT, 22% of CIT and 22% of VAT rates) has failed. However, pressure of media has brought some results. In 2004 the CIT rate amounts to 19%, and the PIT taxpayers may optionally choose the way of taxation: 19% rate with no reliefs or general rules.

3. Corporate income tax in the „old" countries of the European Union

At present the nominal CIT rates in the European Union countries account for 28–38% (table 1). Ireland is the exception, where since 2000 a meaningful drop in the CIT rates has been observed: to 24% in 2000, 20% in 2001, 16% in 2002 and 12,5% since 2003 (*Ireland…,*1999). Such dramatic decrease of the CIT rates engender objection of the European Commission that treated the CIT reduction as an unfair competition (Hofheinz 2001).

Table 1. CIT rates in the European Union countries in the years 1998, 2000 and 2004

Countries	1998	2000	2004
	(%)		
Austria	34	34	34
Belgium	39	39	39
Denmark	34	32	33
Finnland	28	29	29
France	33–36,7	36,7	34,33
Germany	42–56	42,2	38,29
Greece	35; 40	35; 40	35
Ireland	32	24	12,5
Italy	37	37	37,25
Luxemburg	30	30	30,48
Portugal	34	32	27,5
Spain	35	35	35
Sweden	28	28	28
The Netherlands	35	35	34,5
Great Britain	31	30	30

Source: 1998 r. – *Przeglądy Gospodarcze OECD 1999–2000*. 2000 – *European Tax Handbook 1996*, International Bureau of Fiscal Documentation, Amsterdam 1996 and 2000; 2004 – OECD Tax Data Base.

For many years in the Western Europe countries the relatively high and uniform CIT rates have been accompanied by more and more liberal rules of depreciation. They have been often used selectively, with regard to a kind of investment and its localization.

Liberal rules of depreciation extent replace investment reliefs to more and more, previously very popular in many countries of the European Union.

Level of the nominal CIT rates is an essential, but not the most important factor determining a real tax burden. Real (effective) tax rate is affected seriously by construction of tax system, especially by: tax base, rules of depreciation' calculation, kinds and range of tax reliefs, taxation of dividends on profits transferred amongst different partnerships with capital ties, possibilities of joint accounting of loses in a case of partnerships with capital ties.

In reality, combination of decreasing tax rates with wider tax base and reduction of tax reliefs often results in maintenance of effective tax burdens at the same level. Moreover, they often even grow. Let's take an example of Sweden. Till the eighties tax system in Sweden (like in most of the other countries) was grounded on a narrow tax base and high tax rates. The nominal CIT rate amounted to 56%. However, due to a very narrow tax base with lots of exceptions and reliefs, an effective CIT rate reached a level of 20% merely. In the nineties the nominal CIT rate amounted to 28%. Simultaneously, tax base was significantly widened. As a result, the effective CIT rate raised to about 25% (Lodin 2001).

Investigation amongst 2118 firms in the European Union indicates that the average effective CIT rate in the years 1990–1996 was almost by 10 percentage points lower than the nominal rate (Joumard 2001, pp. 34–35). Despite similar nominal rates, differences between particular countries were very high. In Belgium, Portugal, and Austria the effective rate was nearly two times lower than the nominal one. In Sweden, France, the Netherlands, Finland and Great Britain tax reliefs had low impact on decrease in tax burdens. The most popular were investment and R&D reliefs, those connected with creation of new jobs, attraction of foreign firms and capital and connected with support for less developed regions.

Data contained in table 2 indicates that in the years 1999 and 2001 differences between nominal and effective tax rate underwent distinct reduction (compared to the previous period). Effective tax rate was lower than nominal rate hardly by a few percentage points. Reduction of differences was a result of recent significant limitation of tax reliefs.

Table 2. Effective CIT rates in the EU countries in the years 1999 and 2001 (in %)

Countries	1999	2001
Austria	29,8	27,9
Belgium	34,5	34,5
Denmark	28,8	27,3
Finnland	25,5	26,6
France	37,5	34,7
Germany	39,7	34,9
Greece	29,6	28,0
Ireland	10,5	10,5
Italy	29,8	27,6
Luxembourg	32,2	32,2
Portugal	32,6	30,7
Spain	31,0	31,0
Sweden	22,9	22,9
The Netherlands	31,0	31,0
Great Britain	28,2	28,3

Source: L. Oręziak, Finanse Unii Europejskiej, PWN, Warszawa 2004, p. 236.

Despite clear tendencies towards reduction of the CIT reliefs, the opinions on this issue still differ. „European Taxation" conducted survey investigation at the turn of 2000 and 2001 amongst the members of some European organisations that deal with taxes professionally. It occurred that 37% of respondents was for minimization or elimination of all the CIT reliefs, 42% was for their preservation, while another 11% had no opinion on it (Bravnec 2001).

In the developed countries share and structure of both budget revenues and spending in relation to GDP (table 3) have been changing very slowly, despite some tax reforms. The OECD data from the year 2000 on structure of tax budget revenues reveals that the highest share in the OECD countries' budgets was that of e VAT (over 30%), then of PIT (26%) and social insurance fees (about 25% in the OECD and 27.5% in the UE). Low share of the CIT revenues (9.7% in the OECD and 9.2% in the EU) is a common feature of tax policy in the developed countries (OECD 2002).

Table 3. Size of the public finance sector in the OECD, the UE and the Euro zone (in % of GDP)

Countries	1986	1990	1995	2000	2001	2002	2003	2004[a]	2005[a]
OECD									
Budget revenues	36.5	37,3	38,2	39,3	38,9	37,8	37,4	37,1	37,1
Budget spending	40,6	40,3	42,1	39,3	40,3	40,7	41,2	40,9	40,8
Balance	–4,1	–3,0	–4,1	0,0	–1,4	–2,9	–3,8	–3,8	–3,7
UE									
Budget revenues	44,5	44,3	45,5	46,6	46,2	45,5	45,8	45,5	45,1
Budget spending	49,2	48,3	50,9	45,9	47,3	47,5	48,4	48,0	47,7
Balance	–4,7	–4,0	–5,4	0,7	–1,1	–2,0	–2,6	–2,5	–2,6
Euro zone									
Budget revenues	44,3	44,1	46,4	47,2	46,4	46,0	46,1	45,7	45,2
Budget spending	49,2	48,7	51,4	47,0	48,1	48,2	48,9	48,4	47,9
Balance	–4,9	–4,6	–5,0	0,2	–1,6	–2,2	–2,8	–2,7	–2,7

[a] forecast

Source: OECD data

4. The corporate income tax in transition economies

At early stage of transformation process all transition economies had to implement incentives stimulating economic activity and increasing competitiveness in order to attract foreign capital. Tax competition became an important instrument of that strategy. Comparative analysis including the Baltic States (Estonia, Lithuania, and Latvia) and the Wysehrad Group countries (The Czech Republic, Poland, and Hungary) provides evidence that in the mentioned countries the CIT rate was diminishing, as well as share of the CIT revenues in relation to GDP (table 4). All the countries implemented wide system of tax reliefs and tax holidays, as well as other incentives for inflow of foreign capital. In some countries tax holidays for the foreign investors lasted till 2003, or even longer.

Table 4. CIT in transition economies

Countries	CIT rates[a]		Share of CIT revenues in GDP (in %)[b]	
	1993	2001	1993	2001
Estonia	35	26	4,5	0,8
Hungary	40	18	1,7	2,2 (2000)
Latvia	35	25	3,7 (1994)	2,0
Lithuania	25; 35; 45; 50	24	4,4	0,5
Poland	40	28	4,3	2,0
The Czech Republic	45	31	7,9	3,2
Poland	40	28	4,3	2,0
Hungary	40	18	1,7	2,2 (2000)

Source: [a] – Tax guidebooks; [b] – own calculations based on Government Finance Statistics Yearbook, IMF 2002 and International Financial Statistics, IMF, March 2003.

Hungary was the first country to introduce cuts in the CIT rates: from 40% to 36%, and to 18% in 1995. At present (2004), the CIT rate amounts to 16%. This was not tantamount, however, to reduction of effective tax rate and to drop in share of the CIT revenues in GDP. One can even observe an opposite tendency. Share of the CIT revenues increased from 1.7% in 1993 to 2.2% in 2000. This may result from differences in calculation of income subject to taxation, range of tax reliefs and accelerated depreciation, differences in profitability of the firms.

Since the beginning of transformation period, the Hungarian tax system has been characterised by lots of tax reliefs and exemptions. Tax regulations dated to 1992 introduced uniform, 40% tax rate for all the economic agents, maintained hitherto existing reliefs, as well as introduced some new reliefs, tax holidays, and incentives for inflow of foreign capital. In the years 1992–1993 ten years long tax holidays were introduced for the foreign investors. Some of them expired only in 2003. However, at the end of the nineties tax relies became more and more neutral from the viewpoint of source of capital (foreign/domestic). They were re-designed in order to activate the less developed regions and to reduce unemployment (*Worldwide Corporate tax Guide 2001,* pp. 269–270).

In Poland the common CIT for all legal persons was introduced in 1989. Till 1996 the CIT rate amounted to 40%. In the succeeding years it was reduced by two percentage points yearly: to 38% in 1997, 36% in 1998 and 34% in 1999. Since 2000 further reduction of the CIT rates has taken place: to 28% in 2001 and 2002, 27% in 2003 and 19% in 2004.

Policy in the area of tax reliefs and exemptions has been changing together with the changes of governments presenting more or less liberal economic views. Liberal economic approach-characteristic for the early stage of transformation- was connected with significant reduction, or even elimination, of tax reliefs. On the other hand, however, despite formal equality of particular ownership sectors, the foreign investors received tax holidays, while the state-owned enterprises, besides income tax, were additionally burdened with a tax impeding excessive growth of wages and with interest on own capital.

Investment reliefs were introduced in Poland in 1994 and were in force to the end of 1998 r. However, the Polish enterprises may still use tax reliefs running economic activity in 17 Special Economic Zones.

Reformers in the Baltic States paid much attention to entrepreneurship stimulation and attracting foreign capital. Frequent changes in the rules of corporate income taxation evidence this (Purju 2002). This is expressed by gradual reduction of tax rates. Additionally (in Lithuania since 1997, in Estonia since 2000), taxation has referred only to distributed profit or to other transactions that might be treated as a hidden form of profit distribution: fringe benefits, gifts and donations, profit transfers.

At the beginning of transition, all the Baltic States implemented significant investment reliefs for the foreign investors. At the end of nineties, the reformers resigned some reliefs for the foreign investors and replaced them with reliefs aiming at inducing the investors to locate capital in the relatively less developed regions of the country, threatened with high unemployment.

Striving for inflow of foreign capital, the particular countries compete with taxes, infrastructure, and other facilities connected with supply of public goods, institutional solutions, law regulations, etc. Capital may inflow to a country where taxes are relatively low. To attract the foreign investors both improvement of infrastructure and highly skilled workers are necessary. There is an adverse relationship between these categories: high taxes give chance for better infrastructure and higher education spending, while lower taxes decrease size of the public finance and limit possibilities for improvement of infrastructure and for gaining financial sources for education.

Statistical data on the budget revenues and spending (table 5) indicates that in each of the investigated countries reduction of taxes was accompanied by cuts in public spending. However, both rate and size of reduction of the public sector differ in particular countries. The process was the relatively most intensive in Hungary, the slowest in Poland, while in the Czech Republic size of public sector was even growing. Additionally, particular countries possess different possibilities of gaining financial sources for public spending. Size of budget deficit in those countries differs as well. The Baltic States are more successful in reduction of budget deficit than the Wysehrad Group is.

Table 5. Size of the public finance sector (in % of GDP)

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Estonia											
Budget revenues	.	40,1	40,0	40,2	41,3	39,9	39,0	39,4	38,9	36,9	36,8
Budget spending	.	34,9	40,3	40,9	39,9	41,1	40,5	37,0	39,2	37,0	36,7
Balance	.	5,2	–0,3	–0,7	1,3	–1,2	–1,5	2,4	–0,3	–0,1	0,1
Hungary											
Budget revenues	53,9	52,5	52,6	55,1	51,4	48,1	46,8	44,9	43,0	45,2	42,4
Budget spending	53,5	55,4	59,4	60,6	59,7	53,2	49,9	49,5	47,0	49,1	45,4
Balance	0,4	–2,9	–6,8	–5,5	–8,4	–7,1	–3,1	–4,6	–4,0	–3,9	–3,0
Latvia											
Budget revenues	.	.	27,4	35,8	36,5	35,5	36,5	39,0	42,0	39,4	36,0
Budget spending	.	.	28,2	35,2	40,5	38,8	37,8	37,6	12,4	43,4	39,0
Balance	.	.	–0,8	0,6	–4,0	–3,3	–1,3	1,4	–0,4	–4,0	–3,0
Lithuania											
Budget revenues	43,7	40,7	32,2	24,0	32,7	32,8	30,1	33,5	33,3	32,9	31,0
Budget spending	49,1	38,7	31,7	38,3	37,5	37,3	34,7	35,4	36,0	32,8	31,2
Balance	–5,4	2,0	0,5	–4,3	–4,8	–4,5	–4,6	–1,9	–3,0	0,1	–0,2
Poland											
Budget revenues	42,9	45,2	44,4	47,7	47,5	45,7	45,1	44,1	41,5	41,0	40,4
Budget spending	39,8	49,0	50,4	50,5	49,5	48,4	47,5	45,8	43,8	43,7	42,4
Balance	3,1	–3,8	–6,0	–2,8	–2,0	–2,7	–2,6	–1,7	–2,3	–2,7	–3,0
The Czech Republic											
Budget revenues	.	.	.	42,4	44,9	43,8	42,7	40,7	38,9	39,7	40,1
Budget spending	.	.	.	41,9	46,0	45,7	43,9	42,8	39,8	40,3	43,3
Balance	–1,8	–1,9	–3,1	0,5	–1,2	–1,8	–1,2	–2,1	0,9	–0,6	–3,2

Source: the years 1990–1993 – G. Kołodko, *Ekonomia i polityka transformacji*, Poltex, Warszawa 1999; the years 1994–1997 – M. Dąbrowski, *Countries during the UE Accesion Process*, Raporty CASE, No 26, Warszawa 1999, p. 36; the years 1998–2000 – own calculation based on *International Financial Statistics*, IMF, Washington DC, July 2002.

5. Tax competition and perspectives of tax harmonisation in the enlarged European Union

On May 1, 2004, 10 new countries enlarged the European Union: 8 from the Central and Eastern Europe and 2 from the Southern Europe. As it was mentioned in introduction to this paper, tax competition has become the main source of conflicts between the old and the new members of the European Union.

Analysis of data on public spending and taxes in hitherto members of the European Union (see table 3) indicates that tax competition does not lead to the race to the bottom, as theory suggests. However, it protects against excessive fiscal burdens, which is evidenced by restraining the growing rate of public spending, as well as by attempts to harmonise the CIT rates.

Early in the nineties the Commission of independent experts was appointed, headed by Onno Ruding, the ex-Finance Minister of the Netherlands. The Commission was to deal with harmonisation of direct taxes. At the early 1992 the Ruding report was presented (named after the President of the Commission). The European Parliament as worthy of recommendation recognized conclusions included in the report. The Ruding Commission recommended the minimal and maximal levels of the CIT rates at 30% and 40% respectively. Minimal 30% rate was advised both for accumulated profit and for shareholders with a status of physical persons. Need of harmonisation of both tax base and system of tax collection was mentioned as well (Kupier1996, pp. 71–76). Since 1992 the attempts to harmonise CIT have nearly failed. Need of unanimity in voting on tax proposals was stressed as the main cause of mentioned failure. The experts were of opinion that even at majority of voices the Ruding's proposals were not real, as the process of tax harmonisation is very arduous and time-consuming. Moreover, it needs lots of legislative changes in tax and accounting regulations in the EU countries (Messere 2000; *European Tax Handbook 1996; 2000; OECD Economic Surveys,*). Changes of tax rates within the last decade have pointed at existence of crawling tax competition.

The next attempts of tax harmonisation have failed as well. Code of Conduct for Business Taxation accepted by the EU Council on December 1, 1997, is not a formal document. It is just a set of rules that should be abided to limit a phenomenon of tax competition that is treated as harmful competition. In March 1998 the EU Council appointed another team of experts, headed by Dawn Primarolo, the Treasury Minister of Great Britain. Again, the effects of their job were not implemented. It occurred that from amongst 271 investigated tax solutions 66 were essential for localisation of economic activity within the EU and were acknowledged as harmful. Member countries were obliged to repeal them; however, due to lack of sanctions, merely nothing has changed within the last years in order to remove harmful regulations (Patterson 2002, pp. 17–18).

The matter of the CIT rates' harmonisation came back to life after 1st of May, when Germany, France, and Sweden accused the Central and Eastern European countries of tax dumping and appealed to harmonise the CIT rates in the enlarged Union. The Finance Ministers of Germany and France proposed implementation of minimal rates or brackets that would include the CIT rates of the member countries. However, according to the Union Constitution, such decision would need all the members to agree. Veto of Ireland, Great Britain and Luxembourg, as well as of most of the new EU members seems to be certain. Anyway, in the first half of May 2004 Jonathan Todd, the spokesman of the European Commission in the range of taxes commented the mentioned above proposal. He indicated that the Commission would not support the plans of CIT harmonisation in the enlarged Union, because such decisions fall within the particular countries cognizance (Sołtyk 2004). It is also proper to stress that Todd stood out against the definition of „tax dumping", used by the German politicians with regard to the countries with lower taxes. He also cited the Commission's opinion that the CIT rates may, or even have to be, lower in the countries with worse infrastructure and cheaper labour force(Sołtyk 2004).

The Polish Finance Minister Andrzej Raczko presented sound arguments for giving the particular countries sovereignty in the area of income taxes and for acceptation of the lower rates by the Union. He stated that harmonisation of the CIT rates in the EU is not necessary for the following reasons (Blajer 2004)

1) Tax rates are just one of many factors that assign competitive advantage of the country. Access to infrastructure is very important, which is different for example in Poland and Germany.
2) Level of the income tax rates should be correlated with access to the capital market. In transition economies the enterprises have more limited access to credit and to the stock exchange than firms in the Western countries. Lower tax rates give them more possibilities of capital accumulation.
3) Poland and the other transition economies have different structure of budget revenues, compared to the „old" European Union countries. In those countries share of indirect taxes (VAT and excise tax) in budget revenues is higher.

There is no doubt that the rules of corporate taxation should be harmonised. However, the reformers should start with unification of the basic matters that affect a tax base, namely revenues and costs of their obtaining, as the rules of their calculation differ across the member countries. This in turn affects the enterprises' effective tax burdens. In this context the Todd's opinion that comparison of hitherto tax rates is like „confrontation of pears with apples" is fully right (Sołtyk 2004) Unification of rules of taxation for legal persons is then more urgent than harmonisation of tax rates. However, in the nearest future we should expect heated discussions on both the matters. Discussion on tax burdens in particular member countries will become a starting point for discussion on distribution of structural funds amongst the new member countries in the next Union budget for the years 2007–2013. Germany, financing ¼ of the Union budget, would probably strive for CIT harmonisation, counting for support from most of the „old", and part of the „new" members of the European Union.

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