Chapter 5

Fiscal Integration and Harmonization:
European Union Integration from Fiscal Perspectives – Objectives, Means, Obstacles, and Politics

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ABSTRACT

The concept of integration expresses an extremely fundamental and complicated formation. Despite such important and complicated issues and problems, Europe has made considerable progress and developments and been able to form the European Economic Community first and then the European Communities, and finally the European Union. It is necessary to precisely and smoothly complete the three stages of integration in order to mention about an exact integration. These stages, economic integration, fiscal integration, and political integration are discussed within this chapter. The first stage, economic integration, can be achieved only with the integration of the trade among the elements of the integration. Hence, it is required to seek for the fiscal harmonization of the tax legislation that is the most important competition breaker element in the field in question. A complete economic integration will be possible only by providing this fiscal harmonization.

INTRODUCTION

The European Union has already followed the politics of fiscal harmonization aforementioned in a planned and systematical way since the first stage, in other words The Treaty of Rome of the European Economic Community. Although it has achieved considerable successes about this subject, it has been unable to place the system and fiscal harmonization within the relevant legislation of the acquis communautaire completely and as necessary; moreover, it could not apply the regulations it has made in the activity and direction it has desired.

DOI: 10.4018/978-1-4666-7308-3.ch005
As a matter of course, significant progresses and developments have been procured and a specific harmonization has been provided in terms of fiscal rules.

If successes considered as important had not been achieved in this stage, fiscal and political integrations which are the next stages could not have come to the fore and the EU could not have reached their current level.

The issues we will discuss and assess in the article will be the addressing processes of the taxational obstacles in the way passed to come to this level in terms of the tax approximations first and then tax harmonization. These stages will ensure to institute the tax coordination and remove the tax competition that is upper final objective.

Can these objectives be provided as required and desired?

We will seek for an answer to this question in the article here, and we will try to analyze and assess the causes and results of the developments in positive and/or negative way.

Both the primary legislation and secondary legislation regulations and application will be explained within the context of the EU acquis communautaire and the issue will be sophisticatedly discussed within the context of the indirect taxation and direct taxation.

Consequently, the recent state will be presented by generally synthesizing, and expectations and suggestions will be included.

**BACKGROUND**

Fiscal Integration is one of the main stages to achieve Union Integration. Union concept has economical, fiscal and political processes. European Union, at the first step, tried to construct the primary stage with fiscal approximations and harmonizations. The role and the consequences of the Neumark Committee (1960) and Neumark Report (1962) were very important and considerable. Avoiding tax competition is very important for the concept and for the spirit of common market. Otherwise tax harmonisation is inevitable to construct the base of the desired and preformed system. So the acquis communautaire, founder treaties, their legislations and especially their fiscal rules, are very important. But at the same time, the application of the mentioned issues is very sensitive as well. The authors believe that, tax harmonization is indispensable and even essential. Once the tax harmonization was rightly and notably applied on the indirect taxation, especially in Value Added Tax (VAT) system, it brought success. In spite the success of indirect taxation, the direct taxation experience was at the time and unfortunately still at present, has been insufficient and unsuccessful.

The authors also propose that, if the European Union members can regulate, apply commonly and act in full harmonization their corporate and income tax systems, than European Union will be much more significant.

**CHRONOLOGICAL PROCESS OF THE EUROPEAN UNION INTEGRATION**

In our time basis of social relations is the economic relations. These economic decisions and problems are also the determiners of countries, standards of living and policies which will be followed by the governments. Wars which were won depending on human power, concessions (privileges and capitulations) obtained by political skills of experienced diplomats have outlived their validity. In our day the power of production has taken the seat of the power of war. Economy and finance policies have become the factor of this economic power in a sense. State government has been based upon economic and financial applications within the context of legal rules and legislation. Missions, visions, manners and applications of the governments have changed parallel to this. Throughout the history, uniting european governments and
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