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THE OPTIMAL TAXATION OF INDIVIDUAL INCOME (BASED ON THE CASES OF IRELAND AND OTHER EU COUNTRIES)

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Abstract:
The tax system is one of the most important parts of the financing systems in every country. It plays a vital role because it is still one of the most efficient sources of public revenues. Therefore, countries decide on different tax solutions in order to derive maximum benefits for their economies. Because of the process of tax harmonization in the European Union, the EU member states have more flexibility in creating tax systems when it comes to income tax area. The main purpose of this paper is to analyse the efficiency of the Irish income tax system in comparison with other economies from the European Union. Furthermore, this article is an attempt to answer the question how EU countries include personal living conditions in the process of income tax assessment. The comparison of income tax systems in different European countries may also allow drawing conclusions on tax solutions which would be most beneficial for both economies and societies. Personal income taxation in European Union have been harmonised only in marginal aspects. It has got a direct impact on differences in their fiscal and non-fiscal role.

Keywords: tax, tax system, optimal taxation, personal income tax

1. INTRODUCTION

The tax system is one of the most important parts of the financing systems in every country. It plays a vital role because it is still one of the most efficient sources of public revenues. Therefore, countries decide on different tax solutions in order to derive maximum benefits for their economies. Because of the process of tax harmonization in the European Union, the EU member states have more flexibility in creating tax systems when it comes to income tax area.

The main purpose of this paper is to analyse the efficiency of the Irish income tax system in comparison with other economies from the European Union. Furthermore, this article is an attempt to answer the question how EU countries include personal living conditions in the process of income tax assessment. The comparison of income tax systems in different European countries may also allow drawing conclusions on tax solutions which would be most beneficial for both economies and societies.

2. THE PLACE AND ROLE OF PERSONAL INCOME TAX IN MODERN TAX SYSTEMS

A tax system presents an internally ordered set of taxes which are in force in a given country. It is influenced by a range of various factors specific for a given country. As a result, there appear significant divergences in tax systems of particular countries, which might be related both to essential issues as well as to the structure of particular taxes.

Income taxes play a particularly important role in the tax systems of developed countries. They grew in significance after World War II and now, along with turnover taxes, they are the backbone of most European tax systems. The most widely used forms of income taxation include personal income tax (PIT) and corporate income tax (CIT).

The importance of income taxes results, inter alia, from their high tax fiscal efficiency. Although, in most Central European countries their fiscal importance is lower when compared to indirect taxes, they are still one of the main sources of budget revenues.

The special role of personal income tax is also connected with its social nature. It applies particularly to individual taxpayer’s payment capability. In its structure it also takes into account a tax-free allowance, determining the subsistence level, as well as the whole range of tax reliefs and exemptions. Therefore, its personal nature enables to realize the principles of tax fairness.

To achieve social objectives through the tax by the state should not interfere with the natural course of social and economic processes taking place in the economy. Too wide range of tax reliefs and exemptions can lead to a breach of the principle of equality and universality of taxation. In addition, due to the fact that the personal income tax applies to the whole society, the structure of PIT should not be subject to political pressure.

Income taxes in the EU member countries are not covered by the harmonization to the extent to which the indirect taxes were. The EU law does not contain provisions which relate directly to the taxation of income. As a result, tax solutions in the field of income taxes in the countries of the European Union are significantly different from each other. The differences in their structure involve a number of consequences, both for the economies of these countries and their societies.

3. PERSONAL INCOME TAX IN IRELAND AGAINST OTHER EU COUNTRIES

The fundamental law regulating the principles of personal income taxation in Ireland is the Taxes Consolidation Act 2007, with its most recent amendment introduced by the Finance Act 2013.

Personal income taxes in the European Union have many features in common. The solutions adopted in the EU states, in particular, those related to the issues of tax entity or subject; do not differ considerably from each other.

In PIT, the tax obligation lies, in particular, on individuals. Additionally, in Ireland, subject to taxation are, organizational entities with no legal personality, trustees representing people with disabilities and

non-residents, executors of wills as well as administrators of the deceased person's estate, partnerships and revenues obtained from activities run within a European Economic Interest Grouping – EEIG, (Income tax summary Ireland). Moreover, like in most EU member states, in Ireland there are different rules of taxation for residents and non-residents.

The subject to PIT is income understood as revenue lowered by the costs incurred to obtain it. The wide approach towards income sources which prevails in the EU is that any revenues obtained are included in the taxable base and which assumes the possibility of deducting losses. Revenues which constitute the base of the income tax in Ireland were classified in four groups. They cover different categories of revenues, for which different tax solutions are applied, with regard to, among others, reliefs and exemptions. The essential issue, making European tax systems different, are solutions relating to capital gains. In some countries such as Romania or Slovenia, these gains are also subject to personal income tax, whereas in Ireland and most European countries they are subject to separate taxation (Taxation Trends, pp.136, 144).

One of the most essential aspects determining an individual nature of PIT is the amount and a number of tax rates valid in a given country. In most European countries a progressive tax system is applied. A flat rate tax system of incomes occurs, in particular, in countries which joined the EU after 2004, and these are, among others, Bulgaria, the Czech Republic and Lithuania (Taxation Trends, pp.56,68,108). In Ireland two tax rates are valid – amounting to 20 and 40%. Furthermore, the tax solutions adopted in this country make the tax threshold level (with the applicable tax rate) dependent on a taxpayer category. Four types of taxpayers were distinguished: single and widowed persons, single parents, spouses with joint spousal return when one of them holds an employment, and spouses with joint return when both of them are employed. A detailed list of tax rate applied in Ireland in 2014 and 2015 is presented in Table 1.

Table 1: Income tax rates in Ireland in 2014-2015

Personal circumstances	2014		2015	
	20%	41%	20%	40%
Single, Widowed or a Surviving Civil Partner without qualifying children	€32,800	Balance	€33,800	Balance
Single, Widowed or a Surviving Civil Partner qualifying for Single Person Child Carer Credit	€36,800	Balance	€37,800	Balance
Married or in a Civil Partnership - one Spouse or Civil Partner with income	€41,800	Balance	€42,800	Balance
Married or in a Civil Partnership - both Spouses or Civil Partners with income	€65,600	Balance	€65,600	Balance

Source: Tax Facts (2014), p.34.

Tax rates adopted in Ireland do not deviate significantly from those applicable in other member states. Particularly high rates are in force in those countries, where the functioning social security system is very complex, such as Sweden, Denmark, or Belgium. The highest tax rate in these countries exceeds 50%. In turn, some of the lowest tax rates are applied in such countries as France and Finland, where they amount to 5.5% and 6.5% respectively, as well as in Luxembourg and Malta, where by virtue of tax reforms carried out recently the introduced rates are 0%. A number of tax rates existing in Ireland is relatively low compared to those in other European countries where the tax progression is applied. In this context, Luxembourg especially differs from others with its 19 tax rates. The detailed information is presented in Table 2.

Table 2: The lowest and highest tax rates of personal income tax and number of tax thresholds in selected countries of the EU in 2011 and 2013

Country	2011			2013		
	Number of thresholds	The highest and the lowest tax base		Number of thresholds	The highest and the lowest tax base	
Austria	4	36.5	50.0	4	36.5	50.0
Belgium	5	25.0	59.0	5	25.0	50.0
Cyprus	3	20.0	30.0	4	20.0	35.0
Denmark	4	11.6	51.5	3	5.8	56.0
Finland	4	6.5	49.2	5	6.5	31.8
France	5	5.5	41.0	5	5.5	45.0
Greece	9	15.0	45.0	3	22.0	42.0
Ireland	2	20.0	41.0	2	20.0	41.0
Luxembourg	17	8.0	42.1	19	0.0	40.0
Malta	3	15.0	35.0	5	0.0	35.0
Germany	2	14.0	47.5	2	14.0	42.0
Poland	2	18.0	32.0	2	18.0	32.0
Slovenia	3	16.0	41.0	3	16.0	41.0
Sweden	2	20.0	56.4	2	20.0	56.6
UK	2	20.0	50.0	2	20.0	45.0

Source: own study based on Krajewska (2012), pp.95-96, Taxations trends in European Union (2014), Taxing Wages (2014)

The Irish tax system gives for couples a possibility of joint spousal return for the income obtained in a given tax year. Such solutions were not introduced in every European country. In such countries as Italy, Netherlands or Slovakia the income tax is paid only individually. (Worldwide Personal Tax Guide, pp. 645, 927, 1164).

Table 3: Joint spousal return for couples in the EU countries in 2013

Country	Joint tax return	Country	Joint tax return	Country	Joint tax return
Austria	-	Germany	+	Netherlands	-
Belgium	+	Greece	+	Poland	+
Bulgaria	-	Hungary	-	Portugal	+
Czech Republic	-	Ireland	+	Romania	-
Cyprus	-	Italy	-	Slovak Republic	-
Denmark	-	Lithuania	-	Slovenia	-
Estonia	+	Luxembourg	+	Spain	+
Finland	-	Latvia	-	Sweden	-
France	+	Malta	+	United Kingdom	-

Source: own study based on Taxing Wages (2014)

Another decisive factor creating the income tax system in a given country is a system of tax reliefs and exemptions. Exemptions allow excluding certain groups of taxpayers, or certain groups of incomes from the obligation to pay tax. In Ireland a valid system of tax exemptions is complex. There is no tax obligation, among others, on individuals age 65 or older who obtained a total income not exceeding €18,000 (*Marginal Relief*) in a given fiscal year (Income tax summary Ireland). Furthermore, not subjected to taxation are, among others, income derived by artists, writers and composers up to €40,000, income from renting a room if the total income earned on this account in a given tax year did not exceed €10,000, or income from self-employment business by people who prior to its start were

long-term unemployed (minimum 15 months), provided the amount of tax does not exceed €40,000. Such an exemption is in force for two years since the starting up business activity (Income tax summary Ireland).

The Irish tax system provides a wide range of tax reliefs. Some of them may be deducted from the amount of the obtained income (tax allowances), while others from the calculated amount of the tax obligation (tax credits). Tax reliefs deducted from the income include: an amount of capital expenditure incurred by small and medium-sized enterprises under the EIIS scheme (*Employment and Investment Incentive Scheme)* up to €150,000, premiums paid under various pension schemes, e.g. Retirement Annuity Contracts or Occupational pensions. An interesting solution is also the possibility to deduct from the income a relief due to taking up employment by individuals who were unemployed for the period of three years since the commencement of work. The amount of the relief is dependent on the number of children (Tax Facts, 2014, p.34).

The range of deductions from tax (tax credits) in the Irish tax system is much more powerful than the amount of deductions from income. They are deducted in the course of the employee payroll. The amounts of reliefs deducted from tax are equal to the amount of a tax free allowance and they may be joined.

Table 4: Main personal tax credits in Ireland (EUR)

Personal tax credits	2014
Single person with no dependent child	€1,650
Married or in a civil partnership	€3,300
Widowed person or surviving civil partner with no dependent child	€2,190
Widowed person or surviving civil partner bereaved in the year	€3,300
Single parent with dependent child	€3,300
Widowed parent or surviving civil partner with dependent child - first year after bereavement	€5,250
Employee tax credit	€1,650

Source: Tax Facts (2014), p. 33.

A tax-free allowance exists in tax systems in most European countries. These amounts differ considerably from one another and are, e.g. €12,332 in the UK, €19,500 in Cyprus, €8,130 in Germany, €5,750 in Denmark, €1,728 in Estonia, or €734 in Poland. A European country, where there is no tax-free allowance is, among others, Hungary (Taxing Wages, 2014).

The income tax in Ireland is collected within PAYE system (Pay As You Earn), according to which the employer calculates the tax, deducts it from the employee's remuneration and pays it to the Tax Office. The frequency of this procedure depends on the dates of paying remuneration – it can be done on weekly, fortnightly or monthly basis. Within this system also the pensioners' incomes are settled. The characteristic feature of this system is the necessity to calculate the amount of tax obligation (preliminary tax). The preliminary tax is calculated as 90% of the expected amount of the tax due in a given tax year or 100% of the tax due in a previous year. Tax payers are obliged to pay the amount of the income tax calculated this way and to submit a tax return for the previous year up to 31 October in a given tax year (Work in EU 2014, p.56).

4. FISCAL EFFICIENCY OF PIT IN THE EU COUNTRIES IN 2004-2013

Income taxes are nowadays one of the most important sources of budget revenues in the majority of European countries. Fiscal efficiency of these taxes as well as the necessity to finance increasingly higher government expenditure are essentials factors affecting income tax systems.

Table 5 presents revenues subject to PIT in selected EU states in the years 2004-2013.

Table 5: Revenues from the personal income tax in the EU in 2004-2013 (%GDP)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	9.4	9.0	9.6	9.1	9.0	9.1	9.2	9.2	9.5	9.8
Belgium	13.4	12.6	12.2	11.8	12.0	11.8	12.0	12.1	12.2	12.7
Czech Republic	4.5	4.2	3.5	4.0	4.0	3.5	3.3	3.5	3.6	3.7
Denmark	24.2	24.2	24.5	24.7	24.0	25.5	23.7	23.6	23.9	26.4
Estonia	6.3	5.5	6.1	5.8	5.5	5.6	5.3	5.2	5.3	5.5
Finland	12.7	12.9	12.7	12.5	12.8	12.7	12.1	12.3	12.6	12.9
France	7.2	7.7	7.3	7.2	7.5	7.1	7.0	7.3	7.9	8.4
Germany	7.8	7.8	9.2	8.7	8.4	9.1	8.5	8.8	9.3	9.6
Greece	4.3	4.6	4.7	4.6	4.5	4.8	4.4	4.8	7.0	-
Hungary	6.6	6.6	7.7	7.2	6.7	7.4	6.4	4.9	5.3	5.0
Ireland	8.5	8.6	8.6	9.2	9.2	8.4	8.2	8.5	9.1	9.3
Italy	10.0	10.0	11.1	10.7	10.3	11.2	11.3	11.1	11.6	11.6
Luxembourg	6.6	7.3	8.1	7.4	7.6	8.1	8.0	8.4	8.4	9.0
Netherlands	5.8	6.6	7.0	7.2	6.9	8.1	8.0	7.7	7.3	-
Poland	3.6	3.9	5.3	5.2	4.6	4.6	4.4	4.4	4.5	-
Portugal	5.0	5.1	5.4	5.3	5.1	5.5	5.4	6.0	5.8	7.7
SlovakRepublic	2.6	2.6	2.7	2.5	2.5	2.4	2.3	2.5	2.6	2.5
Slovenia	5.6	5.4	5.7	5.5	5.7	5.7	5.6	5.6	5.7	5.3
Spain	6.1	6.3	6.9	7.3	6.8	6.5	6.8	7.0	7.2	7.3
Sweden	14.5	14.7	13.1	13.9	14.6	12.7	12.0	11.7	11.9	12.3
UK	9.5	9.8	10.2	10.2	9.9	9.8	9.4	9.4	9.1	9.2

Source: own study based on http://stats.oecd.org/viewhtml.aspx?datasetcode=REV&lang=en# (26 February2015)

On the basis of the data presented, we can draw a conclusion that the revenues from the personal income tax in recent years are at a relatively constant level. The highest revenues from PIT were obtained in such countries as Denmark, Belgium, Finland or Sweden, where they amounted to 26.4%, 12.7%, 12.9% and 12.3% of their GDP, respectively. On the contrary, the lowest revenues were recorded in Slovakia and the Czech Republic, where they stood below 5% of GDP. Thus, it should be noted that the highest income revenues in the years 2004-2013 were gained by the countries with tax progression and high tax rates. In Denmark, where these revenues are highest, maximum tax rate of PIT amounts to 56%. Similarly, in Sweden and Belgium where the highest tax rates are 56.6% and 50%. The lowest revenues from the personal income tax are generated by those countries with the flat tax rates as exemplified by the Czech Republic, Estonia, Slovakia and Hungary. In this context, Poland is an exception, where despite tax progression revenues stay at a relatively low level, i.e. 4.5%.

Due to the differences in GDP, the analysis of tax revenues related to these amounts does not provide a complete picture of fiscal efficiency of these very taxes. A more comprehensive evaluation might be possible if based on the data related to revenues share of PIT in total tax revenues in the years 2004-2013, presented in Table 6.

Table 6: Share of revenues from PIT in total tax revenues in 2004-2013 (%)

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Austria	22.5	22.1	23.8	22.5	21.7	22.2	22.5	22.4	22.8	23.1
Belgium	30.9	29.0	28.4	27.8	28.0	28.1	28.3	28.2	27.7	28.5
Czech Republic	13.0	12.2	10.3	11.7	11.9	10.8	10.2	10.5	10.7	10.9
Denmark	50.6	48.9	50.9	51.8	51.5	55.0	51.0	50.6	50.6	54.3
Estonia	20.7	18.1	20.1	18.6	17.6	16.0	16.0	16.3	16.5	17.3
Finland	30.4	30.6	30.1	30.1	31.1	31.1	29.7	29.3	29.4	29.3
France	17.1	18.0	16.9	17.0	17.8	17.2	16.8	17.0	18.0	18.7
Germany	23.0	23.0	26.7	24.9	23.8	25.2	24.3	24.6	25.5	26.2
Greece	14.3	14.7	15.5	14.9	14.4	16.2	14.1	14.8	20.8	-
Hungary	17.7	17.9	21.0	18.2	17.0	19.0	17.0	13.3	13.8	12.9
Ireland	29.1	29.2	27.7	30.3	32.2	31.1	30.6	31.8	33.3	32.9
Italy	25.4	25.6	27.3	25.7	24.8	26.7	27.2	26.8	27.2	27.2
Luxembourg	17.7	19.1	22.2	19.9	20.4	20.8	21.1	22.4	21.8	22.9
Netherlands	16.5	18.1	19.1	19.8	18.9	22.9	22.2	21.4	20.1	-
Poland	11.4	11.9	15.7	15.1	13.5	14.7	14.1	13.8	14.0	-
Portugal	16.8	16.9	17.6	16.9	16.3	18.6	18.0	18.8	18.6	23.1
SlovakRepublic	8.4	8.4	9.4	8.7	8.7	8.5	8.3	8.8	9.3	8.4
Slovenia	15.0	14.2	15.2	14.8	15.7	15.7	15.3	15.4	15.6	14.4
Spain	17.8	17.9	19.2	20.1	21.1	21.8	21.7	22.4	22.4	22.4
Sweden	31.8	31.5	28.5	31.0	33.3	28.9	27.8	27.7	28.1	28.7
UK	28.4	29.0	29.7	29.9	29.1	30.3	28.7	28.0	27.6	28.0

Source: own study based on http://stats.oecd.org/viewhtml.aspx?datasetcode=REV&lang=en# (26 February 2015)

The largest share of revenues due to PIT in the total tax revenues in the years 2004-2013 can be observed in Denmark and Ireland, where these revenues accounted for 54.3% and 32.9% respectively in the total tax revenues. The shares in the abovementioned countries show a rising tendency. In other Western European countries these revenues were mainly at the level of approximately 20-30%. As in the previous case, the lowest share of revenues from PIT revenues in total was recorded in the countries of Eastern and Central Europe. Interestingly enough, in such countries as the Czech Republic, Estonia and Hungary, these revenues show a decreasing tendency. This is particularly evident in Hungary, where the introduction of flat-rate personal income tax in 2011 resulted in the decrease in these revenues from 17% to 13.3% of total tax revenues.

However, it should be noted that the amount of the obtained revenues subject to PIT is not always fully assigned to the government budget. This is the case, among others, in Ireland, the Czech Republic or Estonia (Taxes Wages, 2014, pp.245, 264, 340). In such countries as Poland, Luxembourg or Greece these revenues also contribute partly to the budgets of local governments (Taxes Wages, 2014, pp. 311, 396).

On the basis of the presented data, it might be concluded that the adopted principles of the personal income tax have a significant influence on the level of the government revenues.

5. PERSONAL INCOME TAX AND REALIZATION OF TAX FAIRNESS

Using PIT countries can implement not only the goals of fiscal policy, but also social policy objectives. This tax takes in fact particularly into account the individual circumstances of the taxpayer. Solutions adopted in this area in various countries, however, differ significantly from each other. In some there is a wide range of tax reliefs and exemptions as well as the tax-free allowances, while in others their scope is very limited, or there is no at all.

Table 7 presents the data on the amount of the burden of income tax in different countries, depending on the type of family and remuneration received.

Table 7: Income tax by family-type and wage level in 2013 (as % of gross wage earnings)

Country	Single no ch 67 (%AW)	Single no ch 100 (%AW)	Single no ch 167 (%AW)	Single 2 ch 67 (%AW)	Married 2 ch 100-0 (%AW)	Married 2 ch 100-33 (%AW)*	Married 2 ch 100-67 (%AW)*	Married no ch 100-33 (%AW)*
Austria	10.2	16.2	22.9	7.2	14.2	11.6	13.5	12.0
Belgium	22.2	28.6	35.3	16.8	17.5	22.4	24.6	24.3
Czech Republic	7.6	11.8	15.1	-5.8	-5.5	2.1	4.7	8.8
Denmark	33.0	35.8	42.7	33.0	31.8	33.3	34.7	33.3
Estonia	15.9	17.5	18.7	11.2	11.2	13.6	15.0	15.9
Finland	15.8	22.5	29.6	15.8	22.5	18.2	19.8	18.2
France	12.6	14.6	20.9	7.6	8.5	8.4	11.5	12.6
Germany	14.1	19.1	27.7	-2.4	0.8	6.5	10.8	14.1
Greece	3.1	9.0	18.8	5.3	12.8	9.6	10.2	7.8
Hungary	16.0	16.0	16.0	3.6	7.8	9.8	11.1	16.0
Ireland	8.6	14.7	27.9	3.8	7.1	8.9	12.2	8.9
Italy	17.5	21.5	28.6	9.5	14.4	13.9	16.9	17.5
Luxembourg	9.0	17.0	25.0	1.7	5.7	7.2	11.2	7.2
Netherlands	5.6	15.7	28.1	3.2	15.2	12.0	11.2	12.4
Poland	6.0	6.9	7.7	0.0	0.2	1.9	3.3	6.0
Portugal	8.3	16.2	23.9	3.3	6.1	6.2	10.7	8.3
SlovakRepublic	5.8	9.4	12.2	-1.8	-2.8	2.9	4.9	6.7
Slovenia	6.4	11.0	15.3	0.0	2.6	3.6	5.5	8.2
Spain	12.0	16.6	22.5	3.1	9.0	11.0	12.5	12.4
Sweden	15.2	18.0	30.1	15.2	18.0	15.7	16.9	15.7
UnitedKingdom	12.0	14.7	22.8	-3.1	14.7	12.0	13.6	12.0

Note: ch = children, AW = average wage
* Two-earner family

Source:http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/taxing-wages-2014_tax_wages-2014-en#page75

For those without a family (spouse or children), the highest tax burden is incurred in Belgium and Denmark, where depending on the level of remuneration ranges vary in 22.2-35.3% and 33.0-42.7% of their gross salary. The lowest tax burden among the countries shown characterizes Poland where income tax is approx. 7% of the gross salary. The greatest disparity in the levels of the tax burden, depending on the amount of remuneration is in Greece, where those earning 167% of the "average wage (AW)" bear the tax burden six times higher than those earning 67% AW. In Ireland, the disparities are also high and those with higher salaries pay three times higher taxes. Hungary, however, is an example of the country in which the amount of the tax burden is the same, regardless of earnings.

In most countries, single parents with two children bear a smaller tax burden than single people without dependent children. The exception is Greece, where people with dependent children bear a higher tax burden than those who are single, reaching the same income. In the case of countries such as the Czech Republic, Germany, Slovakia and the United Kingdom individuals in this category do not bear the tax burden. This means that the amount of tax reliefs and exemptions guaranteed in these countries exceeds the amount of income tax due. (Taxing Wages 2014 OECD, p. 62)

Only in the Czech Republic and Slovakia, families with two children, where only one person is employed bear a negative tax burden. In other countries it ranges from 0.2% of a gross salary in Poland to 31.8% in Denmark. Against this background, Greece appears to be an interesting case, where a greater tax burden falls on such families than on singles who obtain the same level of income. In each of these countries, a lower tax is charged from families with two dependent children and who receive jointly remuneration of 133% AW than from families with a joint income of 167% AW. In this respect, the biggest difference occurs in the Czech Republic, where families with higher earnings bear a tax burden twice as high as the one on families with a lower income.

The highest taxes are paid by childless couples in Denmark and Belgium, where these taxes account for 33.3% and 24.4% of the gross salary. On the contrary, the lowest tax burden is on the inhabitants of Poland and Slovakia, where the tax amounts to 6.0% and 6.7% of their remuneration. In turn, Greece is the only country where families with no children whose joint income is 133% AW pay lower taxes than families receiving the same income and having two children.

As is clear from the above analysis so the family situation of the taxpayer in a different way affects the amount of his tax liability arising from PIT. Achieving lower income than the national average and having dependent children does not always translate into lower amounts of the income tax due.

6. CONCLUSIONS

The tax systems of the EU member countries vary when it comes to the personal income tax. These differences are of particular concern to the height and number of tax rates, the scope of tax reliefs and exemptions, or tax-free allowances. In order to find the optimal form of personal income taxation the issue of fiscal performance should be taken into account. Tax progression and high tax rates allow achieving significantly higher budget revenues than in the case of flat income taxation. On the other hand, such a solution results in a higher tax burden of the population. Tax burden is relatively lower in countries where the applicable tax rate for personal income tax is flat. Moreover, it is not characterized by such volatility dependent on an individual situation of the taxpayer, and which takes place in the case of progressive systems.

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