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CORPORATE TAX RATES IN THE EUROPEAN UNION: CONVERGENCE PECULIARITIES*

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Abstract. This paper analyses the convergence dynamics of statutory and effective corporate income tax rates within the European Union (EU) from 2004 to 2023, with the goal of determining whether member states are moving toward a single common tax level or forming several stable convergence clubs. The study employs the Phillips–Sul club convergence methodology, which captures heterogeneous transitional paths and facilitates the identification of country groups that share similar long-term tax trajectories. Using a balanced panel of 27 EU member states and data from the European Commission and the Centre for European Economic Research (ZEW), we test for both overall convergence and club patterns. The global log-t test rejects the hypothesis of overall convergence for both statutory and effective tax rates. The strongly negative test statistics ($t = -8.33$ for statutory rates and $t = -8.29$ for effective tax rates) confirm the existence of multiple long-term regimes rather than a unified convergence pattern. Statutory tax rates separate into three distinct clubs, reflecting different strategic approaches to statutory taxation across member states. Effective tax rates form two more cohesive clusters, with the group of low-ETR economies demonstrating the strongest internal convergence and the most consistent long-run dynamics. Robustness checks across alternative specifications support these findings. Overall, the results indicate that the EU does not follow a uniform path toward complete tax harmonisation. Instead, European corporate taxation is evolving toward the coexistence of several stable fiscal regimes, suggesting that spontaneous convergence remains limited despite ongoing economic integration.

Keywords: statutory tax rates; effective tax rates; convergence; tax harmonisation; Phillips-Sul club convergence

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1. Introduction

Over the past two decades, tax harmonisation has become one of the central issues in the European Union's economic integration. The EU's enlargement, the globalisation of capital flows, and the growing mobility of multinational companies have created an environment where differences in tax rates and tax bases have turned into an important element of economic competition among member states. While the statutory corporate tax rate remains a visible and politically sensitive part of national fiscal systems, the effective tax rate (ETR) has gained increasing relevance, as it captures the real tax burden

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after accounting for deductions, exemptions, and investment incentives. Although theoretical models of European integration anticipate a gradual convergence of tax rates toward a common equilibrium level, empirical evidence shows that this process is neither linear nor uniform (Vicente, 2025). Since member states retain a high degree of fiscal sovereignty, regional and structural clusters of countries with similar tax policies tend to emerge (van Ganzen, 2025). Such clusters may result from coordinated harmonisation efforts or, conversely, from competitive pressures within the single market. Effective tax rates often reveal even bigger differences than statutory rates, as they reflect the actual design of tax systems and specific regimes. The structure of EU finances reveals that the European Union already possesses several forms of revenue capacity, including own resources that, in practice, operate as taxing powers, as well as a wide range of off-budget instruments, such as borrowing through the European Investment Bank and the European Commission. Various pooling arrangements, transfers and guarantees further strengthen the fiscal role of the EU centre, indicating that the EU functions with a real fiscal capacity rather than acting only as a spender without meaningful revenue authority (Groenendijk, 2023).

Following the 2004 enlargement, when Central and Eastern European countries joined the EU, the key question became whether this expansion strengthened or weakened tax convergence. Many of the new member states reduced their corporate tax rates to attract foreign investment and improve competitiveness, often introducing preferential tax regimes that later influenced their effective taxation levels. In contrast, older member states, such as Germany, France, or Belgium, maintained higher and more stable tax rates, which preserved notable differences across the EU. Changes in the design of corporate income tax systems in several EU member states, especially the shift from discriminatory imputation systems to shareholder relief systems, changed the relative tax burden on domestic and cross-border dividend income. Simulation results based on cost of capital and effective average tax rates show that abolishing imputation systems removed the tax advantage for domestic investments and increased competitive pressure, making affected countries less attractive relative to foreign investment locations (Fischer, Müller & Spengel, 2023). EU efforts to limit harmful tax competition are constrained because the Code of Conduct and state aid rules cannot clearly address the incentives that drive aggressive tax planning, which is why a Common Consolidated Corporate Tax Base is proposed as a more effective solution (Perotto, 2021).

In this context, it is essential to examine whether tax rates across the EU converge as a whole or whether countries form smaller, homogeneous groups, known as convergence clubs. The analytical framework for this type of research is provided by the club convergence methodology developed by Phillips and Sul (2007, 2009), which captures heterogeneous dynamics and identifies countries with similar trajectories. Unlike traditional β -convergence or σ -convergence tests, which assume a single common trend, the Phillips–Sul approach allows for multiple equilibrium paths and helps determine whether economies converge within smaller groups. This approach is suitable for analysing both statutory and effective tax rates, the latter often displaying even greater heterogeneity.

Our study aims to identify the existence and nature of convergence clubs in the statutory and effective corporate tax rates of EU member states between 2004 and 2023. The results will provide an empirical view of how tax policy evolved during a period marked by major fiscal reforms, financial crises and regulatory initiatives, including OECD's BEPS actions and EU anti-avoidance directives. At the same time, they will help clarify whether the European tax landscape is moving toward deeper harmonisation or persistent segmentation and thus contribute to a better understanding of the limits and opportunities of fiscal integration within the EU.

2. Theoretical Background

The concept of convergence originates in Solow's neoclassical growth model, which posits that economies with similar fundamental parameters tend to converge toward the same long-term growth rate, while income differences persist if their structural characteristics differ (Solow, 1956). This

framework was later extended to the fiscal sphere, especially to the study of tax burden convergence and the evolution of tax systems. Within the European Union, the question of tax convergence is particularly important because member states share a single market but retain autonomy in setting tax rates, bases and reliefs, creating constant tension between harmonisation and tax competition.

Traditional approaches to measuring convergence include beta convergence and sigma convergence. Beta-convergence assumes that countries with higher tax burdens will reduce their rates faster than those with lower burdens. Sigma-convergence focuses on how the dispersion of tax rates changes over time. However, empirical evidence shows that these approaches fall short, as they assume a single equilibrium level and homogeneous behaviour across countries, something that clearly does not reflect the European tax environment. A good example is the study by Regis, Cuestas and Chen (2015), who analysed 19 European countries from 1980 to 2014 and found no common convergence pattern in either statutory rates or broader tax burdens. Instead, they identified four distinct clusters of tax regimes. Their results also showed that differences persist despite a shared institutional setting and integration.

Fiscal systems across advanced economies show developments that, particularly after the 2007 financial crisis, tend more toward divergence than convergence. While corporate profit taxation shows signs of downward convergence, most other tax categories increasingly diverge, and the gap between liberal and high-redistribution models has widened, with European countries shifting toward the latter (Péligry & Ragot, 2024).

These findings confirm that conventional methods cannot fully capture the actual dynamics of tax systems. Income taxation in Central and Eastern European countries has followed both converging and diverging trajectories between 1995 and 2018, with many states lowering overall and corporate tax rates while the direction and speed of these adjustments shifted across EU accession, tax reform periods and the global financial crisis (Bernardelli et al., 2023).

Indicators of effective corporate taxation, as reflected in companies' balance sheets, increasingly provide a clearer picture of how much companies actually pay compared to statutory rates. Their importance has grown as better data and international tax reform discussions have highlighted the need for backwards-looking measures that reflect real tax burdens more accurately (Jansky, 2023). Studies focusing on effective tax rates add another layer of insight, as ETRs reflect the actual burden faced by companies. In their analysis of 21 OECD countries from 1982 to 1999, Devereux, Lockwood and Redoano (2008) showed that effective rates are the most sensitive to tax competition and exhibit greater variation and faster responses to changes in the economic environment than statutory rates. Subsequent work in the European context also confirms that ETRs are highly heterogeneous and shaped by economic structure, investment incentives and preferential regimes.

Emerging EU economies increasingly rely on lowering effective average tax rates to attract foreign direct investment, reflecting the tension between tax coordination and fiscal competitiveness within the single market (Bilan & Apostoaie, 2025). Long-run evidence from 1998 to 2021 indicates that lower ETR values are associated with greater FDI localisation, with adjustment speeds varying across countries, and the overall pattern suggests tax competition rather than EU-level coordination (Glavaski et al., 2023; Mose et al., 2025). Within the European Union, the decline in effective tax rates of multinational corporations between 2005 and 2015 was primarily driven by reductions in domestic statutory rates, rather than by profit shifting, which accounted for only about 1% of the overall decline among EU-headquartered firms (Garcia-Bernardo, Jansky, & Torslov, 2022). The introduction of DEBRA (Debt Equity Bias Reduction Allowance) and Pillar Two reduces the tax-driven preference for debt financing. It raises effective tax levels in low-tax countries, which limits how much DEBRA can lower the overall tax burden for firms. Their interaction leads to a convergence of effective corporate tax rates across EU member states, creating a more even competitive environment in corporate taxation (Gschossmann et al., 2025). In the V4 countries, the reinvestment of foreign direct investment profits is strongly linked to the effective corporate income tax burden and higher ETRs are associated with lower

reinvestment rates by multinational firms. Institutional conditions related to starting a business, access to credit and contract enforcement also play a significant role, whereas broader macroeconomic factors and corporate profitability appear to have no meaningful influence on reinvestment behaviour (Procházka & Černá, 2022).

As tax systems have become more diverse, more flexible methodological tools have been needed. One of the most influential approaches is that developed by Phillips and Sul (2007, 2009), who introduced a new method of measuring convergence based on dynamic factors and transitional ratios. Their method enables the distinction between countries moving toward a common equilibrium and forming several stable clubs. A major strength of this approach is that it does not assume homogeneous behaviour or a single target level, and it can identify heterogeneous dynamics that traditional methods overlook.

Tomal (2024) provided a detailed synthesis, emphasising that the Phillips–Sul method offers the best available tools for detecting heterogeneous dynamics and performs well even with short panels, making it suitable for European tax data. Institutional changes within the EU also play a major role in shaping tax systems. The ATAD directive, the OECD's BEPS initiatives, and the debate on a global minimum rate of 15% have all influenced tax regimes, although they have not produced meaningful convergence. Van Cleynebreugel (2019) demonstrated that EU tax harmonisation remains selective, and member states have retained substantial control over defining their tax bases despite shared rules. This space for autonomy allows different equilibria to persist and stable clusters to form. The global minimum tax establishes a minimum threshold for the tax burden that multinationals must bear, which limits certain forms of tax competition while still allowing countries to compete through grants and refundable tax credits. As a result, its overall impact on tax competition is weaker and more complex than many policymakers initially expected (Devereux & Vella, 2023).

The European tax landscape is marked by fragmentation (Hyun, 2023; Calijuri & Catinari, 2025). An empirical analysis of effective corporate tax rates in EU countries from 2013 to 2023 shows that differences are narrowing, with low-tax economies maintaining stable long-term positions and high-tax countries converging more quickly toward the average. These trends are confirmed by both beta and sigma-convergence results, which indicate gradual convergence among EU tax regimes (Uličný & Andrejovská, 2025). More vigorous tax enforcement can limit profit shifting and reduce harmful tax competition, but meaningful coordination remains difficult because low-tax countries and tax havens have little incentive to cooperate (Hindriks & Nishimura, 2021). Some EU countries may continue to compete for tax bases by quietly easing tax enforcement, even when statutory tax rates are less significant. Because weaker enforcement makes tax evasion more likely, the EU's anti-money laundering system can help reveal and limit these practices, thereby closing an essential gap in controlling tax competition (Denk, 2022).

Overall, tax convergence in the European Union is shaped by the interaction of two forces: harmonisation pressure and tax competition. Harmonisation transfers some rules into national legislation, while competition leads to diverse responses as countries use taxation as a policy tool. In such a setting, a single equilibrium is unlikely to emerge. The Phillips–Sul framework (2007, 2009) captures this fragmented dynamic, and empirical studies consistently show that tax systems converge primarily within smaller clubs rather than across the EU.

Table 1 provides a structured overview of research studies examining tax burden convergence within the European Union and in a broader international setting. Grouping the literature by methodological approach facilitates the distinction between studies that employ modern club-convergence techniques and those relying on traditional beta and sigma-convergence methods.

The first group comprises empirical analyses that employ the Phillips–Sul method or similar panel techniques to identify stable convergence clubs or clusters. These studies show that EU tax regimes do not move toward a single common equilibrium; instead, they form several long-lasting groups with

distinct trajectories. The second part of the table summarises literature based on traditional convergence approaches, such as beta and sigma convergence. These studies demonstrate that, despite a decline in tax rates to some extent, differences between EU member states persist over the long term. Presenting these works together in one review table makes it clear how methodological approaches to studying tax convergence have evolved, while also underscoring the consistent conclusion that the European tax landscape is moving toward the coexistence of stable tax regimes rather than complete harmonisation.

Table 1. Survey of papers on tax convergence

Paper	Data	Methodological Approach	Key Results	Category
Regis, Cuestas & Chen (2015)	EU-19 & EU-25 1980–2014	Club convergence	Four clubs, no overall convergence	Club convergence
Delgado & Presno (2017)	EU-15 1975–2011	Club convergence	Several clubs in each component	Club convergence
Esteve et al. (2000)	EU-15 1967–1994	Sigma convergence, time series	Multiple countries are converging toward Germany	Traditional convergence
Uličný & Andrejovská (2025)	EU-27 2013–2023	Beta and sigma convergence analysis (ETR & statutory)	Significant β - and σ -convergence; dispersion and heterogeneity decreasing.	Traditional convergence

Source: Own processing

3. Research Objective and Methodology

This empirical study aims to examine whether, between 2004 and 2023, the European Union experienced convergence in tax burden from two perspectives: statutory corporate income tax rates and effective tax rates (ETR). Including both indicators is essential because statutory rates reflect the declared fiscal policy of each member state, while ETRs offer a more realistic picture of the actual tax burden faced by firms once allowances, tax bases and incentive structures are considered. Analysing convergence in both measures enables a more comprehensive assessment of the balance between the EU's harmonisation efforts and ongoing tax competition.

Since the EU's enlargement in 2004, two opposing forces have shaped the evolution of tax rates. On the one hand, harmonisation mechanisms aimed at limiting aggressive tax planning, particularly through the ATAD directives and the OECD BEPS initiative, have pushed tax systems in a more coordinated direction. On the other hand, many member states, especially the newer economies of Central and Eastern Europe, continue to use corporate taxation as a tool in the competition for international investment. The result is persistent heterogeneity in tax regimes, which may either lead to diverging country-specific developments or to the formation of stable groups of countries with similar tax-policy dynamics.

The central research question of this study is therefore: Do EU member states converge toward a single level of statutory and effective corporate taxation, or do they form separate convergence clubs with their own internal dynamics?

To address this question, two hypotheses are tested:

Null hypothesis (H_0): *There is no single convergence process; countries split into several clubs with distinct long-term trajectories in both statutory and effective tax rates.*

Alternative hypothesis (H_1): *A single convergence trend exists, either in statutory taxation or in ETRs.*

To test these hypotheses, we apply the Phillips–Sul (2007, 2009) methodology, which captures heterogeneous dynamics in panel data without assuming a common steady state. The method is based on the log-t test, which evaluates the existence of a single convergence path, followed by a club-clustering algorithm that endogenously identifies groups of countries with similar long-run trajectories. This approach is well-suited to tax-policy analysis, where countries combine different strategies aimed at competitiveness, fiscal stability and investment support, resulting in highly heterogeneous behaviour.

The empirical analysis uses a balanced panel of statutory and effective corporate tax rates for 27 EU member states from 2004 to 2023. The first variable is the statutory corporate income tax rate, expressed as a percentage, representing the official legislative rate in each year. The second variable is the effective tax rate (ETR), which captures the real tax burden after considering allowances, depreciation rules, and specific tax regimes. Data on statutory and effective rates come from the European Commission's Eurostat database and the ZEW database. The panel is fully balanced, as all member states are included for the entire period.

This dataset allows us to run the single-convergence log-t test and then apply the club-convergence algorithm separately for both variables. Comparing the results for statutory and effective rates enables the determination of whether the dynamics of actual tax burdens differ from those of declared tax policy and whether effective rates exhibit stronger or weaker tendencies toward convergence.

The methodological framework follows the model developed by Phillips and Sul (2007), which was later expanded to include applications to economic and fiscal data (Phillips & Sul, 2009). The authors assume that any economic variable can be expressed as the product of a common factor, capturing the overall trend, and an individual component reflecting specific deviations of each unit. To capture this heterogeneity, they propose a framework that analyses convergence dynamics without assuming a single target equilibrium. Their model, widely known as the club-convergence approach, is based on decomposing the variable X_{it} into a common component μ_t and an individual factor δ_{it} :

$$X_{it} = \mu_t \cdot \delta_{it} \quad (1)$$

This equation assumes that all countries share a common trend, μ_t , although each may differ in its individual dynamics, δ_{it} . If the ratio of individual factors between countries moves toward one over time, the system converges to a common trajectory.

For empirical testing, the following relative transition measure is used:

$$h_{it} = \frac{X_{it}}{\frac{1}{N} \sum_{i=1}^N X_{it}} \quad (2)$$

where h_{it} expresses the position of a country relative to the sample average, if h_{it} approaches 1, the country moves closer to the average, and if it consistently deviates from 1, it indicates a distinct long-term trend.

The authors then define the variance of these measures as:

$$H_t = \frac{1}{N} \sum_{i=1}^N (h_{it} - 1)^2 \quad (3)$$

which expresses the degree of heterogeneity in the system. To test for convergence, the following logarithmic regression is used:

$$\log\left(\frac{H_t}{H_1}\right) - 2 \log(\log t) = a + b \log t + u_t \quad (4)$$

where the parameter b indicates the direction of the process. If $b > 0$, H_t decreases and the countries converge, and if $b < 0$, the variance increases and the system diverges. The test is interpreted through the t -statistic, which is compared with the one-sided critical values (-1.28 , -1.65 , -2.33) at the 10%, 5% and 1% significance levels. If the full panel does not show a single convergence path, the Phillips–Sul algorithm allows for endogenous formation of smaller groups of countries, known as convergence clubs. The algorithm proceeds in several steps. First, countries are ranked according to the most recent value of their tax rate. Then, the core of a convergent group is tested and must satisfy the condition $t > -1.65$. Additional countries are added to the core one by one if they pass the test, until the entire panel is exhausted. If some countries remain outside the group, the algorithm is applied to them again. The result is a division of the sample into several stable clusters with homogeneous internal dynamics. Methodologically, this study follows earlier research that documented the existence of club convergence in tax indicators within the EU (Regis et al., 2015). The Phillips–Sul approach makes it possible to distinguish between short-term fluctuations and long-term trends, which provides a more realistic picture of how national fiscal policies adjust to the common economic environment. This method is therefore well suited for testing the hypothesis that tax harmonisation in the European Union does not

take the form of a single unified process, but rather represents a dynamic equilibrium of several stable groups of countries that share similar tax strategies and institutional frameworks.

4. Results and Discussion

4.1 Overview of Corporate Tax Rates from 2004 to 2023

In the European context, corporate taxation has long been shaped by a combination of economic, political and institutional factors, which generate substantial differences among member states. Corporate tax is neither a stable nor a homogeneous element of national tax systems, since the structure of the tax base influences its level, the macroeconomic situation, public debt levels, collection efficiency, tax reliefs and investment incentives. Differences in both statutory and effective rates, therefore, do not arise in isolation but reflect distinct economic models and fiscal strategies across member states. This results in a persistent segmentation of the EU into several groups of countries with similar tax characteristics (Andrejovská & Hudáková, 2016; Mihoková et al., 2016; Víghová et al., 2024). For this research, a panel of 27 EU member states, covering the period from 2004 to 2023, was used. The variables examined were the statutory corporate tax rate (Figure 1) and the effective tax rate (Figure 2), both expressed as percentages and sourced from Eurostat and ZEW.

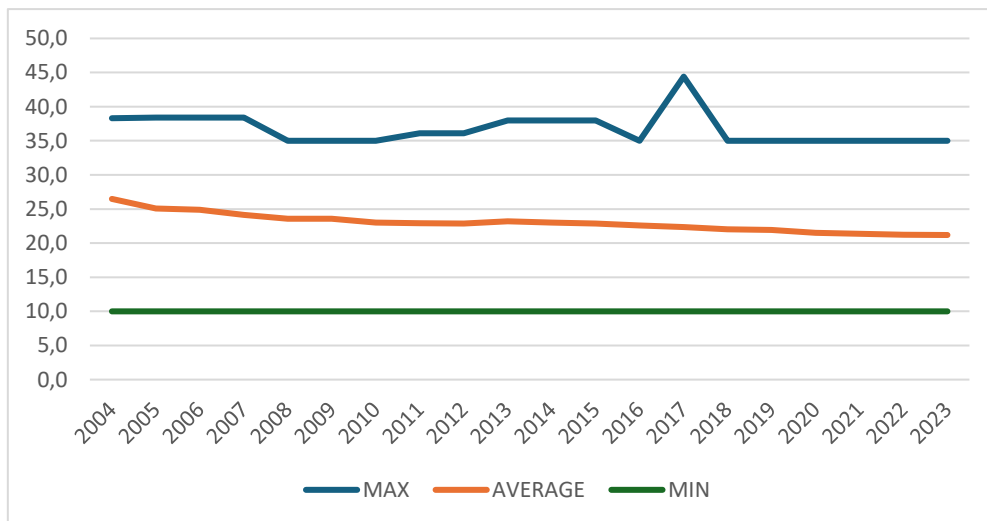


Figure 1. Statutory tax rates in EU countries (2004-2023)

Source: Eurostat (Own processing)

Figure 1 shows that the maximum rates in the EU remain stable over the long term, at around 35 to 38 per cent, with only one fluctuation in 2017. The average rate declines slowly but steadily, reflecting mild downward competitive pressure. The minimum rate remains unchanged throughout the entire period, indicating that real tax competition primarily occurs at the middle of the rate spectrum, rather than at the lower end.

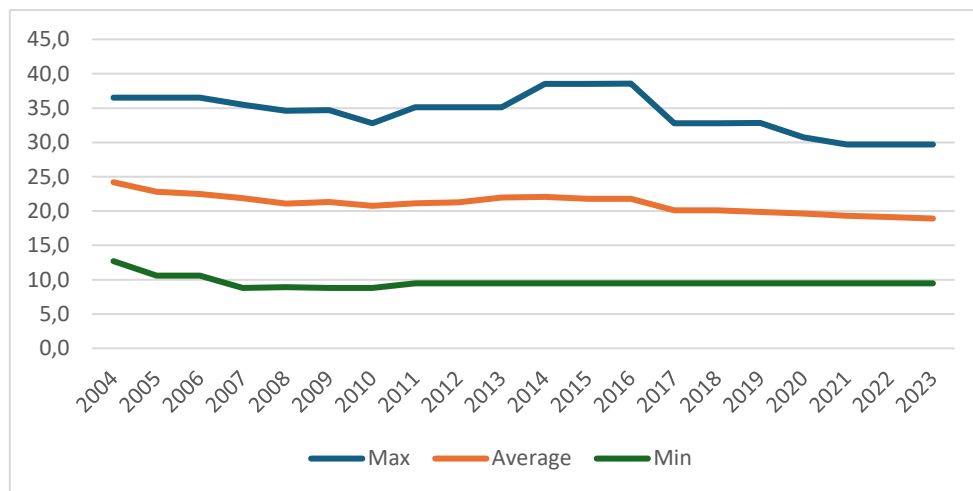


Figure 2. Effective tax rates in EU countries (2004-2023)

Source: Eurostat, ZEW (Own processing)

Figure 2 for effective tax rates shows that the maximum values after 2010 do not follow a clear downward trend, but fluctuate within a band of roughly 34 to 38 per cent, reaching higher levels mainly between 2013 and 2016. The average effective rate has a long-term, although gradual, downward trend, while the minimum values remain virtually unchanged.

4.2 Phillips–Sul Club Convergence

Statutory tax rates

The application of the Phillips–Sul method in this study was used to test whether the development of statutory corporate tax rates in EU member states follows a heterogeneous pattern that a single convergent trend cannot explain. The aim was to determine whether EU countries converge toward a common level of taxation or form separate groups of countries that exhibit similar tax-policy dynamics. The calculations were carried out on a panel dataset covering the period 2004 to 2023, which represents two decades of significant tax-policy changes, from the accession of new EU members, through the post-2008 crisis, to the implementation of ATAD measures and the OECD BEPS initiatives.

The method was applied in several steps. The initial log-t test produced a t-statistic of -8.33 . This result shows that the null hypothesis of a single convergence path must be rejected, meaning that EU member states do not share a common convergent trajectory. The next step was to apply the Phillips–Sul club algorithm, which endogenously divided the countries into three stable convergence clubs.

The first club (A) comprises countries with high statutory corporate tax rates, including Malta, Portugal, Germany, France, Greece, and Latvia. These are states whose tax rates have remained above the European average for a long time, and their development is relatively stable. The average rate of this club in the last five years reached 28.3 per cent. The t-statistic for this group was -0.491 , indicating no significant internal divergence. A noteworthy finding is the inclusion of Latvia, which, although it does not belong among high-tax countries in absolute terms, was grouped here because its rate dynamics followed a similar path.

The second club (B) is the largest group and includes countries with medium tax rates: Italy, the Netherlands, Belgium, Spain, Luxembourg, Austria, Denmark, Slovakia, Sweden, Estonia, Finland, the Czech Republic, Poland, Slovenia, Croatia, Romania and Lithuania. This club exhibits a slightly declining trend in rates, with its recent average reaching 21.4 per cent. The t-statistic of -1.61 signals weak but statistically significant internal divergence. These countries share a general direction of

development but with greater variability, reflecting differences in fiscal strategies and responses to economic cycles.

The third club (C) contains four low-tax countries: Cyprus, Ireland, Hungary and Bulgaria. These are typical low-tax economies that use corporate tax as a competitive tool. The average rate in this club was 11.4 per cent, and the t-statistic of 4.43 confirms very strong internal convergence. This is the most homogeneous group, and its dynamics suggest a stable long-term strategy of maintaining low taxation. Overall, the results confirm that tax harmonisation in the European Union has a segmented character. Contrary to theoretical expectations of gradual convergence, member states form several stable groups whose boundaries do not change over time.

The development of average statutory tax rates by clubs is presented in Figure 1. The curves represent the average of each club across the examined period. The graph clearly shows that all groups experienced a slight decline in rates, but the pace and level of this decline differ significantly. Club A maintains rates around 30 per cent over the long term, with only a modest reduction after 2008. Club B shows a gradual decrease, reflecting the long-term trend of fiscal competition in Central Europe. Club C shows the lowest and most stable rates, stabilising below 13 per cent after 2017. The graph, therefore, clearly confirms the vertical segmentation of tax levels in Europe.

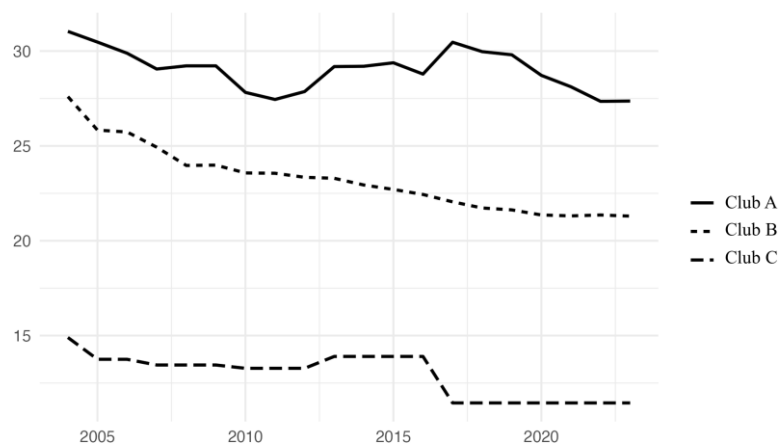


Figure 3. Average statutory tax rates by club (2004 to 2023)

Source: Own processing

Figure 3 clearly shows that Club A, the high-rate group, remains close to 28 per cent, Club B declines from 25 per cent to 21 per cent, and Club C stays consistently below 12 per cent.

Figure 4 shows the development of individual transition paths hit for each country within the clubs. These curves capture the relative position of each country compared with its club average and therefore reflect the dynamics of convergence. The value hit = 1 represents the club average. Countries in Club A fluctuate around this value, which confirms their relative stability. Club B shows larger fluctuations, indicating a transitional adjustment period between older and newer member states. In Club C the country trajectories are very close to each other and remain below 1 over the long term, which corresponds to their low rates and homogeneous development.

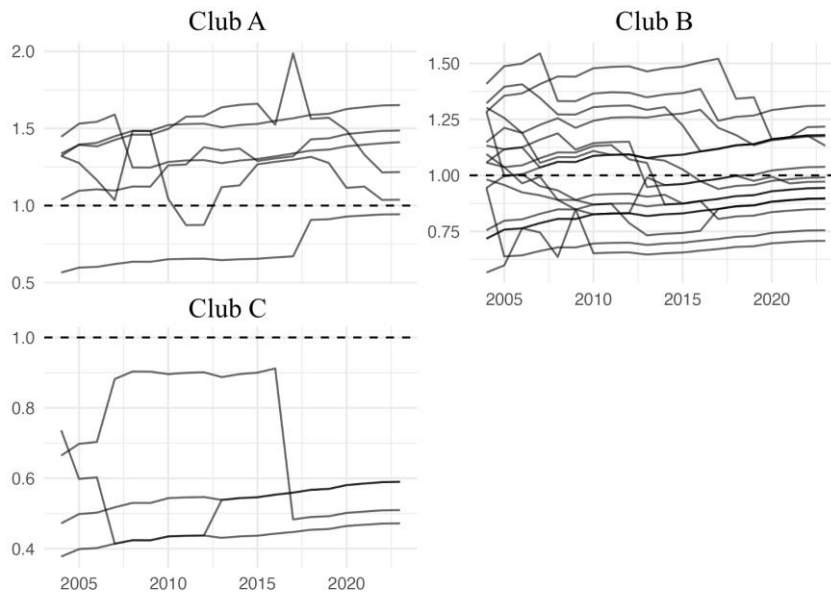


Figure 4. Transition curves by club (statutory rates)

Source: Own processing

Curves of individual countries within the clubs converge toward the value 1, which indicates within club convergence. Figure 5 summarises the average transitional curves for the three clubs. The value 1 represents the EU average. The curve of Club A moves above the level 1, which means that the countries in this group have long term higher tax rates than the union average. The curve of Club B is close to 1, which confirms that this is the core club that represents the overall European trend most accurately. The curve of Club C is consistently below 1 and approaches the value 0.6, which corresponds to low rates and a stable tax policy of these countries.

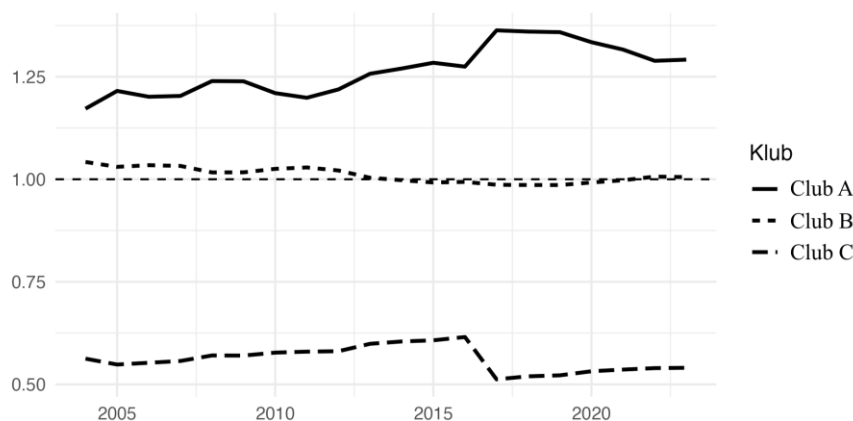


Figure 5. Average relative transition measures by club (statutory rates)

Source: Own processing

The curves for clubs A, B and C fluctuate around the equilibrium value of 1. Club A stays above 1, reflecting high rates, Club B remains close to 1, the middle group, and Club C stays consistently below 1, reflecting low rates.

These results have a clear economic interpretation. Club A represents countries that prioritise fiscal stability and higher levels of public revenue, which limits the scope for aggressive tax competition. Club B is a mix of older and newer member states where a long-term process of adjustment and harmonisation is taking place. Club C represents competitive economies that have maintained low rates over the long run and show strong internal stability. From a dynamic perspective, the internal convergence processes within each club have stabilised. This shift coincides with the introduction of the ATAD and BEPS measures, which reduced the intensity of tax competition among countries. At the same time, the persistent differences between clubs form long-lasting equilibria that reflect the structural diversity of European tax systems.

Overall, the results confirm the theoretical assumptions of Phillips and Sul (2007, 2009) that in a heterogeneous economic environment, a single convergence path does not emerge, and instead multiple equilibrium states develop. The European Union therefore represents a space where fiscal harmonisation does not imply uniformity, but the long-term coexistence of several stable tax-policy regimes. These findings are consistent with the empirical work of Regis et al. (2015), who identified several convergence clubs in corporate taxation. The results can therefore be understood as evidence that tax harmonisation in the EU does not occur through full convergence but through the formation of stable clusters or convergence clubs that reflect historical, economic and institutional differences among member states.

The overall log-t test for the full panel of 27 countries produced a value of $t = -8.33$, which means that single-path convergence is rejected. The algorithm identified three stable clubs.

Club A represents a high-tax model, countries with traditionally strong fiscal systems. Club B includes most countries, which gradually reduce rates but do not reach full homogeneity. Club C forms the low-tax core of the EU, where countries converge very quickly.

A comparison with the study by Regis et al. (2015) confirms the three-club structure, although in this analysis Club C shows higher stability. Delgado and Presno (2017) and Delgado et al. (2019) also report a polarisation within the EU, which aligns with these findings.

From a long-term perspective, the EU is not diverging but instead segmenting into stable clubs that reflect structural differences in economic policy.

Table 2. Allocation of the countries across the clubs (statutory rate)

Club	Countries	Average rate	t-statistics
A	France, Germany, Greece, Latvia, Malta, Portugal	28.3%	-0.491
B	Austria, Belgium, Croatia, Czechia, Denmark, Estonia, Finland, Italy, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Slovenia, Spain, Sweden	21.4%	-1.61
C	Bulgaria, Cyprus, Hungary, Ireland	11.4%	+4.43

Source: Own processing

The results clearly show that the process of tax harmonisation in the European Union does not follow a single convergence path but instead leads to a segmented clustering of countries into smaller, internally stable convergence clubs. The overall log-t test reached a value of -8.33 , which means that the null hypothesis of a unified convergence process is rejected. The development of statutory corporate tax rates in the EU therefore cannot be described by a single common trajectory.

The strongest internal convergence is found in the low-tax club (C), which includes Cyprus, Ireland, Hungary and Bulgaria. These countries form a distinct group with a stable tax policy and long-term low

rates averaging around 11 percent. This result confirms the existence of EU economies whose growth model is built on the competitive advantage of low capital taxation. The t-statistic of 4.43 for this club reflects strong internal homogeneity and a clear long-term direction without any sign of divergence.

The medium-rate club (B) represents the core of the EU and includes most of the older and newer member states. Rates in this group range between 20 and 25 percent and gradually decline, which reflects adaptation to global trends and the need to maintain competitiveness. The t-statistic of -1.61 suggests only weak internal convergence, which is the result of differences in fiscal discipline, economic structures and political preferences across governments.

The high-tax club (A), including countries such as Germany, France and Portugal, is characterised by consistently high rates around 28 to 30 per cent. Although there was a slight decline after 2008, these countries maintain fiscal models oriented toward stable public revenues. The t-statistic of -0.491 indicates that the group does not diverge but maintains a long-term equilibrium at a high level of taxation.

The average rate shown in Table 2 represents the average statutory rate after the major period of tax reforms. A full-period average would mix historical and current values, making it unsuitable for interpreting convergence clubs; therefore, a five-year average is used for clearer comparison.

The graphical results support these findings. The development of average rates across clubs shows clearly separated trajectories, with a stable vertical distance between them. The transition curves demonstrate that countries within each club fluctuate around their stable equilibrium, while the EU average remains roughly midway between high- and low-tax regimes. Compared with previous research (Regis et al., 2015), the findings of this study are entirely consistent. Like those studies, this analysis confirms the existence of several stable clubs whose boundaries remain essentially unchanged over time. European tax policy, therefore, does not evolve toward complete harmonisation but toward the long-term coexistence of different fiscal regimes. The discussion suggests that European fiscal integration is a balance between harmonisation and sovereignty. Convergence appears only within clubs, not across the EU. This means that tax policy remains one of the last areas where strong national diversity persists. Despite long-standing efforts toward harmonisation, the evidence shows that the European Union functions as a space of multiple fiscal equilibria, ranging from stable high-tax regimes to competitive low-tax economies. This conclusion supports the theoretical assumptions of Phillips and Sul (2007, 2009) that in a heterogeneous environment, a unified convergence path is unlikely, and the natural outcome is the formation of stable clubs with their own adjustment dynamics.

Effective tax rates

In the second part of the analysis, the Phillips–Sul method was applied to effective tax rates (ETR), which more accurately reflect the real level of corporate taxation than statutory rates alone. The goal was to determine whether EU member states move toward a common level of effective taxation, or whether ETR also form separate, long-term stable groups of countries with different tax-policy dynamics. The analysis covers the period 2004 to 2023, a timeframe marked by major shifts in corporate taxation, including the financial crisis, EU enlargement, reform waves in Eastern Europe, and the introduction of the OECD BEPS initiative and the EU's ATAD legislation.

The first step was the overall log-t test for the entire panel. The resulting t-statistic reached -8.29 , indicating that the hypothesis of a single convergence path must be rejected, just like in the case of statutory rates, effective tax rates do not converge toward one common level. Instead, within the European Union, there are distinct long-term ETR trajectories shaped by countries' fiscal preferences, the extent and structure of tax reliefs, and the overall competitiveness of their tax systems. The next step was to apply the Phillips–Sul club algorithm, which endogenously identified two stable convergence clubs. This is a noticeably different outcome from statutory rates, where three clubs emerged. The difference confirms that effective rates behave differently from statutory ones, and that countries with

similar statutory rates may face very different effective tax burdens due to reliefs, loopholes or specific tax regimes.

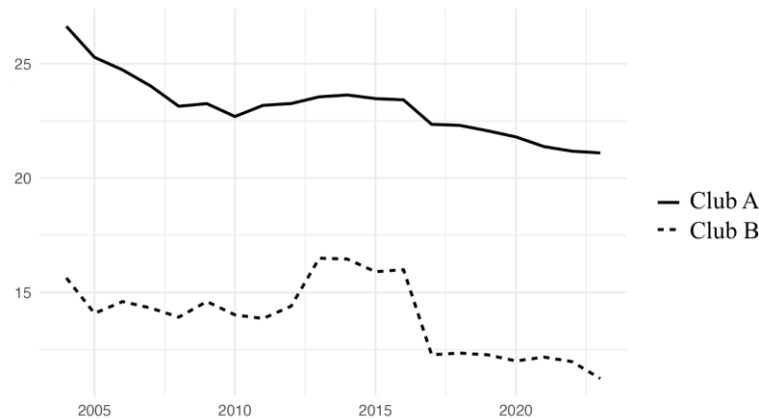


Figure 6. Average effective tax rates by club (2004 to 2023)

Source: Own processing

Club A, the main European convergence block

The first and largest club comprises most EU member states, including Germany, France, Spain, Austria, Slovakia, the Czech Republic, Slovenia, and Estonia. It represents the central European block with effective taxation stabilised roughly around 20 to 22 per cent. The average ETR over the last five years reached 21.5 per cent. The t-statistic for this club was -1.18 , indicating weaker but still acceptable convergence, while also suggesting higher heterogeneity within the group. Several countries oscillate around the average level, and their transition curves show gradual adjustment toward a shared trajectory. The internal variability reflects differences in approaches to tax reliefs, investment incentives and the structure of national corporate sectors. The development of the average ETR for this club shows a gradual decline from 2000 until the period after 2020, with rates remaining consistently above the European average (Figure 6).

Club B, low-tax ETR economies with strong internal stability

The second club consists of the countries with the lowest effective tax burdens in the EU: Ireland, Lithuania, Poland, Cyprus, Hungary and Bulgaria. These economies systematically use tax policy as a competitive advantage and maintain long-term low taxation of corporate activity. The average effective rate in this group reached 11.9 per cent, roughly half of the level observed in Club A. The t-statistic of 0.604 confirms clear internal convergence within this group. The relative transition curves lie well below the value of 1 but remain tightly clustered, which highlights the homogeneous nature of this tax regime. The graph of ETR development by clubs shows that this group maintains low effective rates without major deviations or cyclical fluctuations. The sharp jump in the transition curve of Club B around 2015 is caused by Cyprus, whose ETR briefly surged from about 16 per cent to 28 per cent before falling back again, creating an extreme deviation from the average (Figure 6).

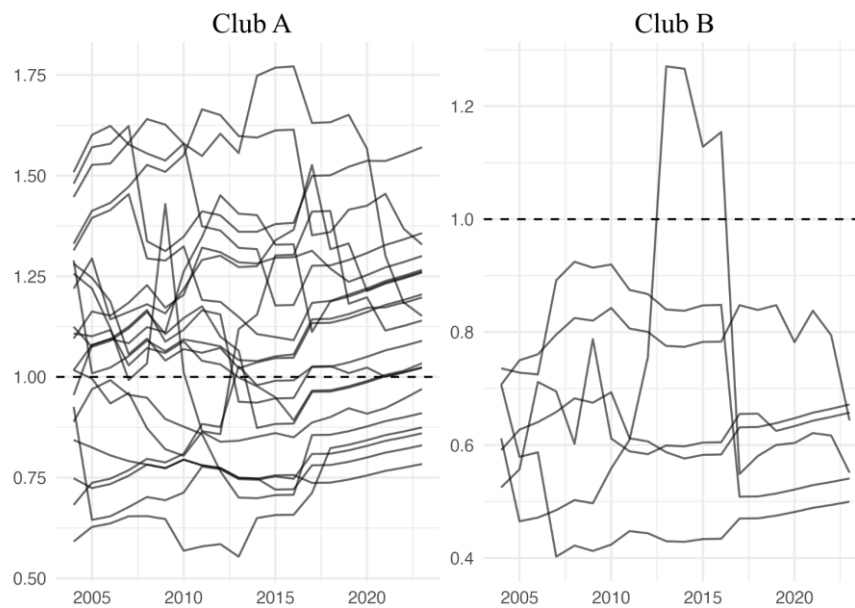


Figure 7. Transition curves by club (ETR)

Source: Own processing

The individual transition curves for countries within each club illustrate how their relative positions evolve in comparison to the European Union average. The value $h = 1$ represents the EU average. For Club A, the curves typically fluctuate around the level of 1, with a slight upward trend after 2015, indicating a gradual increase in effective rates relative to the overall EU average. In contrast, the countries in Club B remain consistently below the value of 1, which corresponds to their low ETR levels and their long-term strategy of attracting investment through tax incentives.

The average transition curves of the individual clubs display clear vertical separation (Figure 7). Club A stays above the value of 1 over the long term, while Club B remains below 1. These differences are stable, resistant to economic shocks and reflect the structural configuration of the tax systems in each country.

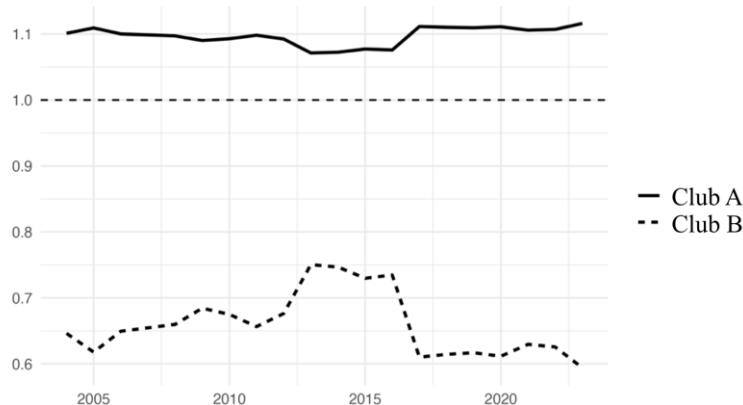


Figure 8. Average relative transition measures by club

Source: Own processing

Figure 8 shows the average relative transition measures for effective tax rates (ETR) in the two convergence clubs identified using the Phillips–Sul method. The value $h = 1$ represents the EU average, so the curves illustrate how each club evolves relative to the overall European trend.

Club A, which comprises most EU member states, consistently remains above the value of 1. This means that its members have experienced higher effective taxation than the EU average in the long term, and their trajectory is relatively stable, without major shocks. In contrast, Club B, consisting of low-tax countries, lies clearly below the value of 1, which confirms its low ETR levels and its stable long-term model based on tax competition. The slight decline after 2016 indicates a widening gap between the low-tax club and the rest of the EU. Figure 8, therefore, visually confirms that effective tax rates do not converge toward a single level but remain separated into two distinct, stable tax equilibria.

The overall log-t test for the panel of 27 countries yielded a value of $t = -8.29$, indicating that the hypothesis of a single convergence path must be rejected. This indicates that EU member states do not follow a single common trajectory in terms of effective tax rates, but instead exhibit diverse long-term taxation patterns that reflect structural differences in their tax systems, the scope of tax reliefs, and the broader fiscal strategies of national governments.

The club algorithm identified two stable convergence clubs (Table 3). Compared with statutory rates, where three clubs emerged, the two-club structure for ETR reflects the fact that effective rates capture the real tax burden of corporate activity more accurately and depend less on the formal level of the statutory rate. As a result, countries do not form a middle group, but rather split into two clearly distinguishable clusters with distinct dynamics.

Table 3. Allocation of the countries across the clubs (effective rate)

Club	Countries	Average rate	t-statistics
A	Germany, Spain, Malta, Luxembourg, Italy, Portugal, Belgium, Netherlands, France, Austria, Greece, Slovakia, Denmark, Finland, Sweden, Czechia, Slovenia, Latvia, Romania, Estonia, Croatia	21.5 %	-1.179
B	Ireland, Lithuania, Poland, Cyprus, Hungary, Bulgaria	11.9 %	0.604

Source: Own processing

The first club represents the majority of EU member states and can be described as the main European bloc. It includes countries with standard tax systems and medium levels of taxation, whose effective rates have remained around 20 to 22 per cent over the long term. The average ETR over the last five years reached 21.5 per cent. The t-statistic of -1.18 indicates weak but still acceptable internal convergence, while also suggesting mild heterogeneity driven by differences in the tax base, available reliefs, and investment incentives. The transition curves indicate that most countries gradually converge toward a shared trajectory and do not exhibit signs of divergence in the long term. The development of the average ETR confirms a slow but steady decline in rates from 2004 to the present.

The second club comprises countries with the lowest effective taxation: Ireland, Lithuania, Poland, Cyprus, Hungary, and Bulgaria. These economies systematically utilise tax policy as a competitive advantage and maintain low overall corporate tax rates. The average ETR in this group reached 11.9 per cent, roughly half the level of the first club. The t-statistic of 0.604 confirms clear internal convergence and high homogeneity within the group. The transition curves remain consistently below the value of 1 and lie close together, signalling a consistent and sustainable low-tax regime. The development of average rates shows that these countries not only maintain low ETR levels but also display minimal fluctuations.

The graphical results support these findings. The average rates by club are clearly separated and a stable vertical distance exists between the two groups. The transition curves show that both clubs move toward their internal equilibria and do not display any tendency to merge or overlap over time. The EU average remains between the two groups, which illustrates that the EU does not form a unified tax level but rather occupies a space between two stable poles.

A comparison with previous studies confirms that these results align with the literature describing the European tax landscape as heterogeneous and segmented. As with statutory rates, the effective rates show that the EU is moving toward a stable coexistence of different fiscal regimes rather than full harmonisation. Effective rates, however, more clearly reveal only two stable equilibria, which reflect differences in the real tax burden caused by deductions, special regimes and the varying economic structures of member states.

The discussion indicates that fiscal integration in the EU is a balance between harmonisation efforts and national preferences. Convergence appears only within the clubs, not across the entire Union. Tax policy therefore remains an area with substantial national autonomy. Effective rates confirm the assumptions of Phillips and Sul that in a heterogeneous economic environment, multiple stable convergence clubs with their own adjustment dynamics are the natural outcome.

Conclusions

The analysis of the development of statutory corporate income tax rates in EU member states between 2004 and 2023 shows that the process of fiscal convergence is fragmented. Instead of following a single trend, countries group into three stable convergence clubs with distinct tax philosophies and long-term dynamics. This result confirms that complete tax harmonisation within the EU is unlikely, since member states pursue different strategic objectives: some prioritise fiscal stability and higher public revenues, while others build competitiveness through low rates.

The analysis of effective tax rates (ETR) provides a clearer picture of the segmentation of tax regimes within the EU. In this case, only two clubs were identified, which indicates that when it comes to the actual tax burden on corporate activity, countries split even more clearly into two strategically different groups. The first group represents the EU core with a stabilised effective tax level of around 20 to 22 per cent, while the second consists of low-tax economies that maintain long-term ETR levels of roughly 12 per cent. The differences between the clubs are stable over time and there is no dynamic suggesting convergence. The fact that effective rates reveal only two stable equilibria highlights the importance of reliefs, deductions and special regimes, which create very different real tax burdens even when statutory rates are similar.

From a policy perspective, the recommendation is to strengthen coordination rather than unify tax systems. The European Commission should support mechanisms that limit harmful tax competition while respecting the heterogeneity of member states' economic structures. A suitable direction includes further development of instruments such as the Common Consolidated Corporate Tax Base (CCCTB), increased transparency of tax regimes and the harmonisation of anti-avoidance rules, since ETR differences are most visible in these areas.

From a scientific view, the research confirms the suitability of the Phillips–Sul method for analysing heterogeneous fiscal processes. Its application to statutory and effective rates shows that convergence mechanisms differ depending on whether the formal rate or the real tax burden is examined. Future research could be extended to dividend taxation, sector-specific differences, disparities between large and small firms or regional variation within member states. Such extensions would help assess whether tax competition is shifting from rate levels toward the tax base, reliefs and optimisation schemes.

Based on the results, the research question can be answered clearly: EU countries do not converge toward a single level of statutory or effective taxation but instead form separate convergence clubs over the long term. The global log-t test for both types of rates yielded strongly negative values, confirming the rejection of a unified convergence trend and the existence of multiple stable tax regimes. The null hypothesis, which states that countries do not follow a single common trajectory but create several clubs with different dynamics in statutory and effective tax rates, is therefore supported. In contrast, the alternative hypothesis of a single convergence path is rejected.

Overall, the European tax landscape is evolving into a stable, multi-layered equilibrium of fiscal regimes. Instead of converging toward a single level, countries form long-term clubs that reflect their economic models, political preferences and historical development. The results highlight that fiscal harmonisation in the EU is a process of coordination rather than complete unification and that differences between member states remain a lasting part of its economic reality.

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