
Editorial

Quo Vadis European Taxation?

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On 1 January 1995 a new commission will take the helm of the European Union. This is an important event because the views of the new commission will to a large extent determine the outlook of the tax system under which the Member States will enter the next century.

The old commission under the leadership of M. Delors and Mme. Scrivener can boast some major successes during the last five years of its tenure; the abolition of intra-community border controls in VAT, the arbitration convention on transfer prices and the tax harmonization of cross border dividends and cross-border mergers.

Yet however desirable those achievements may be, they do not establish a tax system permitting the operation of the economies of the Member States as a fully integrated single market.

There are three major challenges remaining:

1. the introduction of a definitive system of VAT;
2. the effective abolition of all intra-community border controls;
3. the minimal harmonization of corporate income tax.

The introduction of a European eco-tax as such is not essential for the economic integration of the Union. If an eco-tax were to be introduced however, it is essential that this happen on an integrated basis.

Whether these challenges will be met during the next term of the commission will not depend, in our view, on the inventiveness of the tax technicians of the European bureaucracy, but on the question whether the Union will be able to resolve its institutional crisis. In harmonizing their rules on VAT, excises and corporate taxation, the Member States have gone as far as they can, in coordinating their tax systems without any transfer of sovereignty. The political significance of the fact that the tax directives have to be adopted by a unanimous vote is that in the end each Member State remains the sole arbiter of its national tax system. This state of affairs is fully justified in an institutional set-up, whereby the national governments retain full political accountability for the economic and social consequences of their policies. It would be politically illogical and undemocratic to try to achieve the major tax objectives of the Union mentioned above within the present institutional framework. It would be tantamount to 'taxation without representation' and a serious step back until before the Magna Charta.

Those who believe that full liberalization of markets will automatically result in full economic integration of a single market and that so much desired tax harmonization will naturally follow in its wake, without a major political reform of the Union, will be disappointed. The examples of economic integration in the United States and Germany in the nineteenth century show that political decisions and constitutional developments played a decisive role in establishing an integrated economy. Therefore the next tax commissioner has a vested interest in the work of his colleague in charge of institutional reform.

It is only when the European Union will become politically accountable in a democratic way for those policies that should be conducted at the European level, that it is justified to grant the same Union the power to decide the basic issues of taxation, that affect that economic integration. Only in this way will we continue in the glorious tradition of 'No taxation without representation'.

The institutional debate is not a tax debate, but it is essential to progress in tax harmonization. This debate should be as open and as wide as possible. In fact this debate has been going on since the signing of the Maastricht Treaty in the successive referenda for its approval and the referenda on accession of new Member States. Without a political decision there will be no full economic integration, and no further meaningful tax harmonization. This political decision will make or break the Union also in the area of economic integration. It should be taken in a democratic way, with a substantial consensus, which means that no single Member State can hold all other Member States at ransom. Once the political decision

has been taken, the Union should be able to function and be politically accountable like in all other democracies.

All this does not mean that there is no more room for further improvement of the existing tax structures.

Particularly on the intra-community supplies in VAT, the present system could be improved by abolishing the present exemption for intra-community supplies and replacing it by an effective tax imposed not at the rate of the country of origin or destination, but at one of the minimum rates agreed upon by all Member States. This would bring the intra-community supplies much closer to an ordinary domestic supply. It would also eliminate the complication of the panoply of different rates because all Member States would apply the same rate on intra-community transactions for taxation on supplies as well as deduction on acquisitions. The tax paid by the supplier in the country of origin could then be forwarded to the treasury in the country of destination. In fact it is a system of taxation in the country of origin, but at a single tax rate that has been agreed upon throughout the Union. Clearing would be done on the basis of effective tax payments, but because of the single tax rate, control would become much simpler. We launched this idea during the seminar on VAT, organized by the Commission in June 1994. On the condition that Member States could agree on common minimum rates for excises this idea could also be a solution for excise products.

It is one of the few steps that still can be taken within the framework of the unanimity rule. For the corporate income tax the agenda has been set by the report of the Ruding Committee. Unfortunately however, many of those recommendations are still the prisoner of the unanimity rule.