

# Editorial

## The Italian Government shall devote its best efforts to promote the completion of the 'common European house'

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The semester of Italian Presidency comes at a time which is crucial for the creation of the European Union. Indeed, the semester falls between the realization of the Single Market, which occurred in 1993, and the adhesion of three new Member States to the Union as from 1995 on the one hand, and other important future events, such as the introduction of a common European currency and the expected adhesion of further Member States to the European Union on the other.

As a member of the Italian Government, I would like to trace the guidelines of some of the actions that will be promoted in the tax field at the Union level during this semester.

I would first like to describe some of the reasons why, in my opinion, developing the European Union, in the tax field, is not an easy task.

The first reason is related to the non-applicability of the so-called 'cooperation procedure', provided for in art. 100A of the European Single Act, to the procedure required to approve tax directives and regulations. Fiscal provisions are excluded from the measures that may be adopted under the 'cooperation procedure': presumably, most of the Member States are reluctant to give up legislative powers in favour of the European Union authorities in such a sensitive field. Tax provisions may therefore be adopted only by unanimous approval of the European Council, and the adverse opinion of one single Member State may hinder the harmonization of tax legislations throughout Europe.

The second reason, related to the first one, is that, due to the adhesion of Austria, Finland and Sweden to the European Union, the achievement of unanimity within the EU Council has become more difficult. For example, it is a well-known concept that the band of admitted ordinary VAT rates applicable in the Member States should be restricted: such a measure is an essential step in view of the introduction of the definitive intracommunity VAT system, in order for the latter not to have distortive effects on the allocation of productive investments within Europe. It may however be expected that Finland and Sweden, as well as Denmark, whose tax systems are based predominantly on indirect taxes, and especially on VAT, will not welcome any binding measure aimed at reducing their

ordinary VAT rates, 25 per cent, 22 per cent and 25 per cent respectively, to a lower rate.

The consciousness of such greater difficulty in the completion of the European Union has fostered our intention, during next semester, to promote measures which may realistically be achieved and to try to identify solutions to a number of unsettled problems. The same holds true for the Italian programme in tax matters for the semester, the most relevant points of which will be outlined in the following paragraphs.

### 1. VAT definitive system

With respect to the VAT definitive system, which implies the adoption of the so-called country of origin principle, it is expected that in the course of the first half of 1996 one or more official documents from the EU Commission will be issued. Such official documents should describe a possible path that will lead to the implementation of the definitive VAT system. Most likely, however, the deadline of 1997 will not be met. In addition to the timing problem, several other aspects of the definitive VAT system are still to be properly investigated, and the problems that may arise from such an investigation might prove serious.

In the first place, it is important to note that the adoption of the country of origin principle produces an important modification in the nature of the tax: under the definitive system, the transfer of goods would be subject to VAT in the Member State of the seller. However, in order for VAT not to be turned into a tax on production, but rather to remain a tax on consumption, VAT paid in the origin Member State should be remitted to the Member State in which the goods are consumed.

In order for the remittance of VAT from one Member State to the other to be duly effected, it has been proposed that a 'clearing house' be created at the Union level. However, some of the Member States are not particularly convinced by the compensation mechanism that would result from the creation of the 'clearing house'. In particular, it is not clear whether the information system that should be created for the functioning of the 'clearing house' is to be based on macroeconomic data (i.e. data processed by the national statistical bodies of the various Member

States) or on microeconomic data (i.e. based on the accounting information prepared by the enterprises). In my view, both approaches may cause some practical difficulties. Indeed, a statistical approach will be, by definition, scarcely precise. On the other hand, the microeconomic approach, being based on the accounting records prepared by the enterprises, may give rise to fraud and evasion.

In more general terms, it should be mentioned that the long-standing debate regarding the preferability of the country of origin principle over the 'country of destination' principle, which characterized the first decades of life of the European Community, has recently once again gained *momentum*. In this respect, the 'country of destination' principle may still prove quite satisfactory. On the other hand, the 'country of origin' principle, if not accompanied by harmonization and approaching of the VAT ordinary rates in the Member States, might lead to distortions in the localization of productive investments. Such distortive effects would not result from the country of destination principle which, however, in order to function smoothly, still bears the need for fiscal frontiers, the existence of which is somehow in contradiction with the creation of a 'common European house'.

The above-mentioned problems are probably too complicated to be analysed, discussed, and solved in this semester. It would however be important to start up a lively discussion between all parties concerned, in order to create the conditions for a solution.

## 2. VAT special scheme applicable to gold

With regard to VAT special scheme applicable to gold, it is the intention of the Italian Government to restart the efforts aimed at adopting a Directive that will regulate such an area. The Directive proposal submitted by the EU Commission in 1992 (COM(92) 441 final), dating back more than three years ago, has not been approved by the Council yet. However, an opinion rendered in March 1994 by the European Parliament leaves open the possibility to submit an amended version of the proposed Directive. In line with the contents of the Parliamentary opinion, the new proposal should provide the following amendments to the original draft:

- imports and leasing of gold should be included in the scope of application of the Directive proposal;
- 'investment gold' should be defined simply as gold which is traded in transactions carried out by licensed professionals; absence of physical delivery of the gold would be no longer necessary for the gold to be classified as investment gold;
- purchases of gold other than investment gold should be exempted from VAT up to the first level of industrial transformation;
- the mechanism of refund of VAT to non-taxable persons who purchased gold other than investment gold, provided for in para. 4 of the Directive proposal, should be excluded from the scheme.

The introduction of the amendments proposed by the

EU Parliament leaves open the possibility to bring the new text of the proposed Directive more in line with the needs of the various Member States. In this context, it is worth mentioning that the Italian Presidency is organizing, in the course of the semester, several meetings of the *ad hoc* working group in order to gather all suggestions that may come from the official representatives of the Member States and of interested parties.

## 3. Promotion of employment growth

One of the most important social and economical problems presently faced by the EU is undoubtedly the high level of unemployment. In some areas, which include Southern Italy, this is a particularly serious problem. Rekindling job growth is one of the conditions for the success of the 'common European house'. The accomplishment of such a task, if achieved by means of action at the Union level, could lead European Union Member States and citizens to lessen their reluctance against a full European-minded approach to the future.

This view is certainly shared by the Member States, which in 1993 approved in the European Council the White Paper on economic growth, competitiveness and employment.

Based on the principles embodied in the White Paper, the starting of intense consultations between the Member States for the promotion of employment growth will be one of the tasks strongly pursued by the Italian Presidency. This task could be also pursued through the promotion of:

- *small and medium-sized enterprises*, which throughout Europe absorb more than 70 per cent of private employment. Improvement of the fiscal environment of SMEs should be pursued along the lines of the European Commission Recommendation of 25 May 1994 (94/390/EC) and of the communication from the European Commission to the Council and to the European Parliament of 25 May 1994 (COM(94)206). Promotion of SMEs can be achieved, by means of tax measures, through the reduction of the administrative burdens to which SMEs are subject, e.g. through the creation of a unique national tax authority; through the attribution to SMEs of the option to be subject to corporate income tax; through the extension to SMEs of the roll-over relief already granted to corporate entities for intra-EU reorganizations, as well as for transfers of ownership rights on the SMEs. Some further advantages to SMEs could be granted through tentative remedies to the shortage of finance generally suffered by SMEs. Such remedies could take the form of a limitation of tax charges on reinvested profits or of tax and other measures favouring the use of venture capital;
- *non-profit organizations*, which include associations, foundations, social cooperatives and the like, and which may not be classified amongst governmental bodies nor amongst private enterprises. From the point of view of the employment capability of these

organizations, the areas in which they more extensively operate and that could be granted some fiscal incentives to improve employment growth are those related to cultural and social services, medical assistance and, in general, research and development activities. It is therefore evident that the granting of incentives to non-profit organizations may prove successful in two directions: to promote employment growth and to develop organizations which provide socially oriented services;

- *environmental industries*, the promotion of which can yield under certain conditions a 'triple dividend': job creation, environmental improvement and, in some sectors, energy savings.

#### 4. Taxation of cross-border interest income

In view of the creation of the 'common European house', one of the most important tasks to be pursued is that related to the taxation of cross-border interest income. In this respect, during the semester of German Presidency the Directive on a common system of taxation of cross-border interest income proposed by the Commission has been strongly debated. The adoption of such a proposal, or of a similar proposal, would represent an important step towards the full integration of the economic systems of the Member States. However, many problems of a mainly political nature are still to be settled prior to attempting the introduction of a common regime.

Some considerations may possibly help to settle the problems which still affect this important area:

- the full implementation of the freedom of movement of capital ought to be accompanied by an improvement in the system of taxation of cross-border interest income;
- Member States should be free to opt either for a final withholding tax regime for interest paid by financial institutions resident therein to non-resident investors or, alternatively, for a system of automatic declaration of such interest on the part of the non-resident investors;
- an efficient exchange of information should be implemented. Under such a system, the Member States which submit the receipt of interest to the filing of a tax return should be prepared to transmit, at their discretion, information to the Member State where the investor resides.

It is evident that the obligation to exchange information imposed on some of the Member States, if read in connection with the strict bank secrecy in force therein, represents the most serious hindrance to the implementation of a common system of taxation on cross-border private savings. In this respect, the waiving of the bank secrecy privilege may not be requested by a Member State without identifying a solution to the competition which such a State may receive from other countries, not belonging to the EU but close geographically. Such non-EU countries might attract investments from the Member States due to the bank secrecy that their legislation can offer.

#### 5. Legislative measures on carbon dioxide emissions

Another important issue that the Italian Presidency would like to address during the semester is the promotion of legislative measures aimed at imposing on the Member States an obligation to reduce carbon dioxide emissions. Indeed, the promotion of the proposed Directive on carbon dioxide emission cannot be accomplished without taking into consideration:

- the present level of national carbon dioxide emissions;
- the interrelation between taxes on carbon dioxide emission and excise duties on mineral oils;
- the interrelation between the taxes on carbon dioxide emissions and taxes imposed on other energy products.

It will be important, during the semester, to verify the possibility to introduce the CO<sub>2</sub>-energy tax proposed by the EU Commission, or to explore other means to stabilize the CO<sub>2</sub> emissions. The EU Commission proposal appears not to meet the expectations of some of the Member States. Several bilateral consultations between the representatives of the Member States and the Commission have taken place in the past two months to discuss this matter, and the results should be taken into consideration prior to devoting to this problem efforts that might prove unsuccessful.

#### 6. Direct taxation measures

As far as other direct taxation measures are concerned, the adoption of the proposed EU 1993 Directives which would amend the Merger Directive and the Parent-subsidiary Directive (COM(93)293 final 93/C 225/05 and COM(93)293 final 93/C 225/06, respectively) will be supported. Both proposals are aimed at improving the present tax regime in force in the various Member States, which stems from the implementation of the two Directives adopted by the EU Council in 1990 (EEC 434/90 and EEC 435/90).

Since the harmonization of direct taxes in the European Union has proceeded very slowly and has only led to the implementation of the above directives, it would be important at least to remove the uncertainties still affecting their interpretation, in view of creating a more comfortable tax environment for cross-border operating enterprises, including those which are not organized in a corporate form.

#### 7. Conclusions

Having described the contents of some of the objectives that will be pursued by the Italian Presidency, some final remarks must be dedicated to the Tax Administrations of the EU Member States and how to get them prepared to help pave the way for the completion of the 'common European House'.

It is a well-known concept that Tax Administrations are quite far one from the other; there is a serious lack

of cooperation and opportunities to exchange information, experiences and opinions in tax matters.

There is an evident need for a better training of Tax Administration officials to help them to conceive the European tax systems, if not as unified systems at least as harmonized systems. In this perspective, it might be fruitful to investigate the possibility to create a European School for Tax Administration officials, aimed at the better training of national Tax Adminis-

trations officials on international tax issues. Such a project would be also aimed at improving their capacity to prevent tax evasion and tax avoidance, and could therefore be welcomed by the Member States. The school would train Tax Administration officials through detailed programmes concentrated on the areas of comparative tax law, EU tax law, international tax law, and foreign technical tax language.