Editorial

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Tax harmonization – a focal point for the Austrian EU presidency

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During the EU presidency, Austria plans to put emphasis on the coordination and harmonization of the various EU Member States' tax policies. It is not the objective to equalize the tax rates of the Member States, but rather to ensure fair competition and to relieve the strain on the productive factor of labour in a socially sound manner. Both matters are critical to the success of European integration, the common market and the common European currency.

The tax rates for capital gains - i.e. interest and dividends - vary from 0 per cent to over 50 per cent within the European Union. The average corporate income tax rate fluctuates from 28 per cent to 39 per cent. One Member State actually plans to reduce this tax rate to 12 per cent. The personal income tax rates vary from 5 per cent to 31 per cent with marginal tax rates ranging from 38 per cent to 60 per cent. VAT - usually the most important source of income to the Member States - varies from 15 per cent to 25 per cent.

It is not the objective to equalize the tax rates of the Member State, but rather to prevent unfair competition in relation to domicile within the EU by means of tax policy. Tax dumping might, for example, be wrongfully used to create tax deficits which are to be compensated by the EU, that is to say the other Member States.

Unfair tax competition undermines the idea of a fair common market. Unfair market conditions and their consequences are a cause for a renationalization within Europe. Renationalization, however, linked with social and political problems, constitutes a serious threat to the continuity of the Union. During the presidency of Luxembourg, a code of conduct was laid down regarding unfair tax competition. One of the first decisions of the first Ecofin under the Austrian presidency was to establish a commission which has to detect violations of the code of conduct and to report them to Ecofin.

Another important objective of many EU Member States is to relieve the strain on the productive labour. A survey of the European Commission shows that the ratio of taxes for the individual gross domestic products increased by an average of 2 per cent from 1980 to 1994. During this period, taxes on the productive factor of labour increased by 7 per cent whereas taxes on other productive factors such as capital and energy decreased by more than 10 per cent.

The decrease in tax revenue is generally compensated by either a reduction in the social security, public expenditure on education, investments, etc. or by an increase in tax on less mobile factors such as labour. The trend is adverse to a good labour situation and does not improve the quality as domiciles.

Since the special summit in Luxembourg, the members of the EU have agreed that the improvement of the European labour situation must embody a wide scope of political areas, including tax policy. Therefore, tax law should be made more subservient to employment policy. Consequently, the objective is to relieve the strain on the productive factor of labour without affecting the condition of the individual Member States, their quality as domiciles and their financial stability.

On 13 and 14 July, an international conference on the coordination and harmonization of tax policies of EU Member States took place in Vienna. The discussions and results of this conference will now form an important basis for further political discussions by the European Ministers of Finance next autumn. During its presidency, Austria will make an effort to make progress in the harmonization and coordination of tax policies within the EU.