

Editorial

Tax policy priority areas of the German presidency of the European Council during the first six months of 1999

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In addition to 'Agenda 2000', the political priority areas of the German presidency of the European Council, during the first six months of 1999, include two major plans in the area of taxation, both of which are components of the 'tax package' agreed upon on 1 December 1997. The first is aimed against 'unfair' and 'harmful' tax competition within the EU, the second involves the introduction of EU-wide minimum standards for the taxation of interest earnings. In addition, Germany is interested in some harmonization of energy taxes and the further coordination of turnover tax.

1. The fight against 'tax dumping' in the EU

'Unfair tax competition undermines the idea of a fair common market.' 'It is not the objective to equalize the tax rates of the Member States (...)' With these two statements reported in the April 1998 issue of this journal, the Austrian Minister of Finance, Rudolf Edlinger, already referred to the two extremes between which this issue hovers. On the one hand the phenomenon of 'tax dumping' has a distorting effect on decisions about business establishment, provokes the Member States into entering a tax-reduction race and gnaws away at the fiscal foundations of, eventually, all Member States. Obviously, these effects are not in the interest of the EU partners. Particularly those who, as net contributors, take on a considerable share of the financing of the Union can no longer tolerate a situation in which unfair tax competition deprives them of the means to make those contributions. On the other hand, a full-fledged harmonization of direct taxes is not expected for some time to come. The Member States are not particularly eager to give up their autonomy in tax issues, which after all is a substantial part of their sovereignty. Moreover, the subsidiarity principle allows differences in the level of direct taxes and tax systems within the bounds of fair competition.

We also attach great importance, especially during our presidency of the Union, to the effective national incorporation of the 'code of conduct designed in order to fight harmful tax competition in the field of business taxation', as agreed on 1 December 1997. A high level working group under British chairmanship

has been established in order to examine whether the national provisions and practices actually result in lower effective taxation. This task includes some very difficult issues and we cannot hope to complete it during the current presidency. The results of the study will reveal the extent to which harmful (and unfair) tax competition has spread in the EU. This will provide a solid basis for further discussion at the political level.

The code of conduct was one of the items on the agenda of the informal meeting of the EU ministers of Finance and Economic Affairs in Dresden (16-18 April 1999). The working group submitted its second progress report to the Council at its meeting on 25 May and is expected to complete its activities by the end of the Finnish presidency.

2. The introduction of EU-wide minimum standards for the taxation of capital income

This project is no less important to us than the one above. For a long time now, Germany has been calling for measures against tax avoidance by taxpayers moving capital abroad. The introduction of the single currency has made it all the more urgent that minimum standards be established for the taxation of capital income. Capital investors in Member States within the single currency region are no longer subject to any exchange rate risks. In addition, market prices are becoming ever more transparent. This greatly facilitates cross-border investments. A further increase in tax avoidance cannot possibly be in the interest of the Member States. Germany, therefore, is also committed to the adoption of the proposal for a directive from the Commission 'on ensuring a minimum of effective taxation of savings income within the Community'.

The proposal for a directive raises a variety of fundamental issues. This is why it will be impossible to conclude work on the project during the German presidency. However, we do want to ensure that agreement is reached on a number of basic issues and contribute in such a way that we can act on the call of the European Council in Vienna in December 1998 for agreement on the directive by the end of 1999. I am convinced that we will reach that objective.

Indirect taxation, i.e. turnover tax and energy tax, is another priority for the German presidency.

3. Energy tax

The proposed directive on energy tax would improve the operation of the single market as it calls for a phasing out of practices that have a distorting effect on competition. In addition, the directive offers incentives for the implementation of energy-saving measures and will improve energy efficiency. Furthermore, the directive would permit individual Member States to tax certain energy products in a significantly differential way and thus to pursue specific environmental and climate objectives, for example with respect to the fulfilment of the agreements to which the EU has committed itself in the Kyoto Protocol. In preparation for further consultation within the Ecofin Council on the proposal for a directive and possible compromise solutions, bilateral talks are scheduled to take place

with several Member States that have raised fundamental concerns regarding the proposal.

4. Turnover tax plans

Our objections also include the adoption by the Council of the directive on the turnover tax liability of telecommunications services. It is in the interest of all Member States that the directive will allow current regulations to be continued after 31 December 1999 and thus help eliminate the disadvantages that telecommunication service providers from EU countries suffer in competing with providers from third countries. As to the contents of this directive, there is agreement between Member States.

Germany and a number of other Member States are also very interested in further harmonization of input tax credit. If it proves infeasible to facilitate for businesses access to turnover reimbursement (Eighth EC Directive), this should not prevent the harmonization of input tax credit provisions.