

# Editorial

## Tax coordination in the enlarged European Union

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At the present juncture, tax reform in the EU needs a global vision. We need to ask ourselves where is tax policy heading towards to. Too often the approach has been excessively timid and fragmented. Now, after having successfully completed the largest enlargement in the Union's history, it is time to be ambitious and to understand the benefits that improved tax legislation can bring to our economy and ultimately our society. And it is no less true that continuing economic globalisation means that issues such as taxation have an increasingly international dimension which has to be considered. Therefore, the complexity of the matter demands a serious rethink of tax coordination in our Union.

Tax coordination is essential. This approach should not lead us away from the fundamental role of tax policy as an instrument for promoting sustainable development, stimulating job creation and financing social cohesion. The European Union is still lagging behind the Lisbon goals and in particular its self-set objective of becoming, by 2010, the most competitive economic zone in the world. Sensible taxation policies will help us attain these objectives.

Progress with reform of corporate taxation in Europe is more badly needed than ever if the Union wants to translate commitments and promises that the EU should become the most competitive and knowledge-based economy in the world. The Lisbon objectives are far from being achieved. You could say that five years from the deadline the glass is half-empty, not half-full. Tax coordination policy and common systems in corporate taxation are part of the reforms Europe needs so badly. If they are implemented, companies will not be hindered by tax obstacles and could exploit the advantages of a real home market. Legal discrimination would finally end, which too often leads to a real loss for the welfare of the EU. Tax barriers therefore have to be removed by a systematic solution such as an EU tax base. This could be done by the enhanced cooperation mechanism. This would demonstrate Member States understanding that coordinated action is necessary to end discrimination in tax systems, in order to prevent more legal actions by the European Court of Justice. Proposals towards a longer-term goal of providing companies with a common tax base for their EU-wide

activities are a step forward to answer the challenges of corporate taxation.

The setting up of a working party on company taxation by the Finance Ministers is a promising sign as this group of experts must elaborate concrete and detailed proposals on how a common EU tax base might work. Targeted measures are important because they can help resolve some of the tax obstacles to cross border trade. To provide companies with a consolidated corporate tax base for their EU-wide activities has many advantages. The setting of the tax rate at the same time would remain a Member State decision. A common base would be much simpler for companies, more appropriate for the Single Market and, since the effective tax rate would become more transparent with a common base, fair tax competition between Member States would be encouraged. The International Financial Reporting Standards (formerly known as International Accounting Standards or IAS) facilitate the design of a common tax base. It is possible to take one existing tax base or to compare twenty-five tax bases and try and merge them into one. There is also the possibility of a pilot scheme for companies created under the European Company Statute which is in danger of being underused because it does not have a European tax system to match its European corporate form. Its tax treatment under the existing rules is not simpler than the current treatment that companies experience when they operate across the EU. Indeed in some ways its tax treatment is more complicated simply because it is a new form. It certainly does not provide any tax advantages over a traditional group structure, be it based around separate subsidiaries or branches in different Member States.

Europe has known tax competition for decades. Globalisation of markets has increased capital mobility and revenue loss by EU Member States' budgets. And this has been compounded by EU Member States fostering international tax competition despite the fact that this is against the spirit and the rules of the Single market and European integration. Nevertheless EU tax policy has left Member States' prerogatives untouched and has not influenced their tax system and tax rates. Average top rates of company taxation in the new Member States are 21.5% while average top rates of company taxation in the 15 old Member States are 31.4%. As the introduction of a minimum rate requires

unanimity, there is no room for harmonisation. In order to put order into the system the only way out is a common tax base.

There has been progress on combating harmful tax competition since the introduction of the Monti Package but more still needs to be done. Although it is widely recognised that a degree of tax competition will always remain, there is a point where tax competition becomes predatory, and where a Member State simply becomes a bad neighbour. The European Union with 25 Member States just cannot afford the deterioration of competition by egoistic and aggressive tax measures. Tax havens and special economic zones with specific privileges for companies from other countries do not go in line with the idea of a single market and European integration. This is particularly true with regards to international tax havens. We must do as much as we can to fight unlawful tax havens and money laundering. A step in the right direction is the decision to finally reach agreement on the directive on savings taxation. Those jurisdictions outside the EU must realise that we are serious about fair and proportionate taxation.

This debate is also particularly lively in the field of corporate taxation as can be seen by the widely diverse corporate tax rates within the EU. Reform of corporate taxation systems is crucial for growth and employment, and to reach the goals of the Lisbon process. A single market and a single currency are orphans in a Union with no coordination of company taxation. For example, there has been of late a controversy with regards to the low rates of corporate taxation of the new EU Member States. However, I don't think now is the right time to make a real big fuss about this, particularly given the fact that these countries are in a catching-up process and need all the help they can get. There has to be increased policy co-ordination. The clear message is that the cross-border activities of businesses should be treated tax neutrally in the EU. We are not talking about tax harmonisation but of creating a level-playing field. A common system used

to calculate consolidated tax bases for companies operating cross-border is a must.

The risk of double taxation must be eliminated if we want markets to function in a better way. But also other issues that need to be looked at are the framework for a code of conduct of business taxation, and the fair treatment of pension entitlements earned by citizens in different Member States. Taxation reform should be ambitious and encompass as many economic areas as possible. Billions of missing euros could be collected by better coordinating authorities' efforts and then investing the proceeds into research and innovation projects which Europe so badly needs. Though the exact amount of money involved in VAT fraud is difficult to quantify, some Member States have estimated their losses at up to 10% of net VAT receipts. Imagine how many technology-intensive projects could be financed with this extra finance.

In spite of this lack of change, our goal is still to reduce or eliminate as much as possible those tax obstacles that impede employment, economic growth and increased competitiveness. This coherent approach is not only necessary for companies and individuals, but even more so for national tax administrations, which ultimately are the collectors of revenue. Here the key word is 'coordination'.

However, we now have a new EU Constitution that has preserved the unanimity principle for tax matters, which is particularly unfortunate in a European Union of 25 Member States, but that should not deter us from pushing forward. It is still to be seen to what extent maintaining unanimity for tax will continue to act as an impediment for progress. Though a move to more qualified majority voting in the field would have helped, it is not time to complain now but to be creative and think out of the box. For example, the strengthened cooperation procedure could be used amongst those Member States wishing to bypassing unanimity and advance forward. This is done in other fields like the Euro. Why not for tax?