

Editorial

The contribution of a sustainable EU tax policy to the Lisbon agenda

L. Kovács, *European Commissioner*

The European Commission has recently proposed a new start for the Lisbon strategy, involving a greater focus on growth and jobs. The intention is to ensure that Europe is made a more attractive place in which to invest and work, to promote knowledge and innovation and to shape policies that allow EU businesses to create more and better jobs.

A sustainable EU taxation policy is one that will contribute to the realization of these objectives. Taxation policy can, in particular, increase the efficiency and support the process of structural reforms of EU Member States' economies. It can also increase the competitiveness of our companies, by allowing more competition in the markets, boosting trade and supporting knowledge and innovation.

Most importantly, there is still a clear need to improve the functioning of the Internal Market, by extending it and making it deeper. It follows that the main tax priority and objective at EU level must be to remove the tax obstacles and reduce the compliance costs that inhibit companies from operating in more than one Member State. This is fundamental to the EU's economic efficiency and worldwide competitiveness.

At the same time, Member States must be allowed to combat harmful tax competition which can undermine their capacity to finance essential public services and shifts the tax burden towards less mobile bases, such as labour. Rebalancing the tax burden is essential to growth and employment. Member States must also be assisted in protecting their tax revenues against fraudsters who can benefit from the removal of barriers in the Internal Market. Fraudsters undermine the competitiveness of legitimate traders and erode the revenues of Member States.

However, there is also a need for EU tax policy to look beyond the Internal Market, in particular by fostering knowledge and innovation and facilitating the sustainable use of resources. Thus, coordinated EU action in the area of environmental taxes is desirable and even indispensable. Environmental taxes can be used not only to promote environmentally-friendly behaviour but also to provide a stable source of revenues for national governments.

International tax issues are becoming increasingly relevant. Cooperation with third countries in the tax area is crucial in order to promote best practice, the exchange of information and experience, and to prevent fraud and money laundering which are linked

to organized crime and terrorism. It is also important to ensure coherence between taxation policy and wider objectives of the Community such as development aid.

How does the current Commission intend to translate these general principles and objectives into concrete action? A main priority for the Commission in the direct tax field is the creation of a common consolidated corporate taxation base in the EU. If companies were allowed to apply a single EU-wide set of rules for company tax purposes, they would not encounter many of the tax obstacles that they currently face when they do business in more than one Member State in the EU. A single set of rules would also lead to a substantial reduction in compliance costs.

The Commission is currently discussing the elements of such a common tax base with EU Member States in a technical working group. Participation by a Member State in the Working Group does not commit it to implementing a common tax base. However, the Commission is optimistic that with the support of the majority of Member States it will be possible for the group to make major technical advances and to lay the groundwork for implementing the common tax base in the medium term, if necessary via the enhanced cooperation mechanism.

In the shorter term, the Commission intends to present a Communication later this year concerning the possibility of a 'Home State Taxation' pilot project for small and medium-sized enterprises. SMEs are crucial for growth and employment. At the same time it is indisputable that they face greater tax-related compliance costs than larger companies.

The Communication will aim to set out how interested Member States could, on an experimental basis, allow SMEs to apply the company tax rules of the Member State where they are resident (their 'Home State') to their subsidiaries and branches in other participating states.

In parallel with these more far reaching company tax initiatives the Commission is continuing its work on more specifically focused company tax work such as that in the areas of transfer pricing, cross-border offset of intra-group losses and facilitating cross-border business restructuring operations. A number of further measures are in the pipeline in these areas.

Still on company taxation, the Commission also intends to work on facilitating an optimal use of tax

incentives to promote research and development in those Member States that wish to use their tax system for this purpose. Research and technological innovation are the key drivers of economic growth and are central to the Lisbon strategy. Many Member States believe that tax instruments have advantages over direct measures such as subsidies as a means of promoting R&D. A Community framework could provide more legal security, facilitate the exchange of good practices and provide coordinated solutions, if and where Member States so wish.

The Commission is providing every support to the work on the elimination of harmful tax competition under the Code of Conduct for business taxation. It will continue to monitor the operation of the Savings Tax Directive and savings agreements with third countries and dependent and associated territories of Member States that took effect from 1 July this year and will if necessary propose changes to improve the effectiveness of these measures.

Turning to VAT, the Commission will press for the adoption by the Council of the proposal that it presented in October 2004 for a one-stop shop mechanism and other VAT simplification measures. The main purpose of that proposal is to ease the VAT compliance burden on economic operators who carry out activities in other Member States but have no establishment there. This would be achieved by permitting traders to fulfil their EU-wide VAT compliance obligations in the Member State in which they are established. This will be of particular benefit to SMEs.

At the same time, the Commission will also press for the adoption of its 2003 proposal as regards the place of supply for services from business to business (B2B) which has been recently amended in order to include the review of the place of supply rules for services from business to consumer (B2C). This proposal should, when adopted, ease the VAT burden for businesses supplying cross border services to other businesses by eliminating additional VAT registration requirements and eliminating the need for costly refund procedures. It would also help to overcome distortions of competition that are caused by the application of different VAT rates by different Member States and to create a level playing field with third country operators.

The Commission also considers it vital that the Council of Ministers agree before the end of this year on a sustainable solution with regard to VAT rates. The rules regarding reduced rates need to be overhauled in order to improve the functioning of the Internal Market and prevent distortions of competition. The Commission has done what it could by making its proposal in July 2003 to rationalize and simplify reduced rates.

While the experience with reduced VAT rates on

labour-intensive services has not been conclusive, many Member States nonetheless want to avoid ending this practice at the end of this year, fearing negative consequences for employment if prices are raised for the services concerned.

The Commission will also make further efforts to provide a level playing field for the ten new Member States which will have to give up the application of those reduced VAT rates that they achieved as transitional arrangements during the accession negotiations. It is vital, therefore, that agreement is reached by the end of this year on clear rules concerning VAT rates for a sufficiently long and stable period.

Another main ambition for the Commission is that EU Member States would re-structure their passenger car taxation systems. The Commission's recent proposal aims to address the problem of the interaction between Member States' car taxes which has given rise to a number of cross-border problems both for citizens and for the car trade. The proposal aims at the gradual abolishment of the registration tax by integrating it with the annual circulation tax. It is also designed to promote sustainability and contribute to the realization of the Community's environmental objectives by restructuring car tax bases so as to include elements directly related to carbon dioxide emissions of passenger cars. Another environment-related target of the Commission is to present a Communication before the end of this year which will analyse existing rules in the areas of energy taxation, emissions trading and state aid. The consistency and mutual influence of these related tools will be clarified. The Communication should constitute an information and guidance document, both for Member States and for other interested parties.

Finally, the Commission intends to continue to devote considerable resources to its wide-ranging work of assisting Member States to combat tax fraud.

In conclusion, it is not easy to reach agreement within the EU on any tax proposals and initiatives, because of the EC Treaty's unanimity voting rule for tax measures. The Commission depends on close cooperation with Member States, with the other EU institutions and with the public in order to take its ideas forward. It consults widely with the business community, stakeholders and the general public on its initiatives. In this context, the resulting responses to most, if not all, of the consultations concerning the proposed initiatives outlined above have been strongly supportive.

The Commission will later this year present a Communication setting out the contribution of tax and customs policies to the Lisbon strategy in more detail. The objective will be to raise the general awareness of the relevant issues and to launch a debate among policy-makers at all levels and among the public.