

# Editorial

## Taxation in a European context – a German Presidency perspective

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### 1. Introduction

The process of economic integration in Europe is continuing apace. This is to be welcomed, for a common European single market is, and will continue to be, the best response Europeans can give to globalisation. To help determine the direction and speed of this process is, generally speaking, both an opportunity for and the intention of the 2007 German presidency of the Council. The road we must take is clear. We have to create the best possible framework conditions for sustainable economic growth and for markedly higher levels of employment. That 'all roads lead to Rome' is an age-old platitude. That this road, however, is the only one that can lead to a politically and economically strong Europe with a reliable social base surely cannot be disputed.

While our presidency of the Council will by no means be a German ego trip seeking to hammer out maximum advantage for our national companies over their European competitors, we will nevertheless be confident in putting forward our views, always of course in a spirit of fairness and partnership.

This approach will apply of course to the area of European tax policy, one area among many increasingly being co-determined, sometimes even exclusively determined, by the European Union. It is vital for the EU's economic development that we complete the Internal Market and that European companies are made more globally competitive. In light of this, the design of our national direct and indirect tax regimes is one of the key aspects in need of critical attention. Ultimately, this is in the interest of all member states, which rely on a sound basis of tax revenues enabling them to meet those public duties which promote dynamic economic growth and employment.

### 2. Indirect taxation – value added tax

At the EU level, we will work together with the member states to change and modernise the rules on VAT. The focus here will be on fighting abuse and fraud. The European Commission has correctly identified the containment of tax fraud as an important objective of the Lisbon Strategy. The reasons are obvious. Tax fraud not only leads to revenue shortfalls in the member states, it also skews business competition to the detriment of tax-compliant companies.

Seriously tackling this problem – something which is also in the interest of the Lisbon Strategy – will be the first focus of the German presidency.

To this end, by introducing a corresponding amendment to the Sixth VAT Directive we want to create the possibility for member states to introduce at their own discretion a general 'reverse-charge' model to help them prevent carousel fraud and all forms of input tax fraud and abuse.

The second focus will be continuing work on the so-called 'VAT package'. This package is made up of a draft directive changing the place of supply of services, a draft directive changing the methods of refunding input tax for taxpayers resident in another member state, and a draft directive on the introduction of a 'one-stop shop'. Here again, the plan is to work together with the other member states to combat new methods of fraud. One important element of the proposal to change the place of supply of service is the extension of the reverse-charge mechanism, a device which is already embedded in the Sixth VAT Directive and is closely linked to the VAT package. We will therefore have to ensure that this package and the option of introducing a reverse-charge model are closely coordinated and that both are adopted at the same time.

### 3. Direct taxation

In recent years, European case law has been turning its attention increasingly to direct taxation. Consequently, it is becoming ever more important to coordinate European tax policies, especially given that more member states have to be integrated into the Internal Market. As a result, the German presidency must, and indeed will, push forward with the work already done in the area of direct taxation. However, caution is required especially with regard to business taxation. It is absolutely imperative to choose the correct policy so as to avoid premature solutions leading to incalculable consequences for national tax revenues.

Therefore, in collaboration with the Commission, we will – as the third focus – support the work being undertaken on the common consolidated corporate tax base (CCCTB) in order to improve the competitive tax position of European companies. Common rules on a uniform tax base ultimately make it much easier for companies to operate across borders. However, the

design of the CCCTB is still in its nascent stages. It is unlikely that this concept can contribute anything in the near future to help secure German corporate tax takings.

As we know, distortions in competition are not the result solely of heterogeneous economic policy rules and circumstances within the EU. Unfair tax competition, the misuse of tax planning opportunities and failure to tax also have an influential role to play. The hitherto lack of coordination between the national tax regimes within Europe has ultimately left tax revenue potential untapped, and this damages the EU as a whole. For this reason – and this will be the fourth focus – the European Union is also called upon to help close the gaps in taxation. It could well be that this leads to quite hefty debates within the EU. However, this should not deter anyone – least of all us – from addressing the problem in an open manner and not only seeking, but actually implementing the necessary policy measures.

Work is currently underway at the European level on a proposal for a code of conduct (best practices) for bilateral and multilateral advance pricing agreements (APA). The main principles have been drawn up by the EU Joint Transfer Pricing Forum. The German presidency is in favour of the prompt adoption of this code so as to attain a greater level of legal certainty and to simplify the procedures for both tax administrations and, especially, for businesses. This, too, will make an important contribution towards stepping up transparency and scaling down red-tape within the EU. Our efforts in this regard will help us reach an overarching objective of

the German presidency, namely the reduction of growth-inhibiting bureaucracy.

In addition, we will concentrate efforts into finding as broad a compromise as possible so that work may continue on the European Commission's proposal for a directive on passenger car related taxes. Further important points on our work schedule include the revision of the capital duty directive, continued work on the interest and royalties directive and initial talks on extending the geographical scope of the savings income directive.

#### **4. Conclusion**

To sum up, during our presidency we will make every effort to ensure a fair balance between the Internal Market demands placed on national tax regimes and national budget interests. Of particular importance here is the fight against unfair tax competition, which only damages the EU.

The fact that there are conflicting points of view and interests in this and in other regards must not and will not be allowed to prevent us from carrying on with our efforts to build a Europe that continues to generate economic growth and social prosperity into the future for as many people as possible while holding its own in global competition. Admittedly, that sounds more utopian than visionary, never mind realistic. Nevertheless, if we work together as member states and manage in 2007 to reach the objectives outlined above as well as the other objectives of the German presidency of the Council, we can make this ambitious vision of Europe a piece of European reality.