

Commissioner's Opening Speech (15 min)

at the Brussels Tax Forum 2010

Tax Policies For A Post-Crisis World

Brussels, March 1st and 2nd, 2010

Ladies and Gentlemen,

As the new EU Commissioner for taxation, I have the privilege and pleasure to open the fourth Brussels Tax Forum, and to welcome you all. This conference has established itself as an opportunity for policy makers, academics, tax practitioners and stakeholders to exchange their thoughts and views on European and international tax issues. I am proud to announce that this year the Brussels Tax Forum hosts more than 600 participants, from Europe and beyond.

I am honoured to have so many distinguished speakers and attendees here in Brussels. Their presence is a guarantee that the quality of the debates will be of the highest standard, as it has been in the past years.

Certainly one of the main reasons behind the success of this annual event is its focus on issues that are both timely and relevant in the policy agenda. In 2008, the Brussels Tax Forum discussed tax policy for competitiveness and growth and, in 2009, tax systems in a changing world. In keeping with this tradition, as the global recovery gets underway, the theme for this edition is "**Tax Policies For A Post-Crisis World**".

Dear Participants,

We have recently witnessed the worst global downturn since the Great Depression. GDP growth in the European Union decelerated from 2.9 to 0.8% in 2008, while a contraction of 4 percentage points was recorded in 2009. According to the [latest Commission's forecasts](#), the growth rate is expected to bounce back from negative territory to 0.7% this year.

The financial and economic crisis has, therefore, put severe strains on national budgets. On one hand, the economic downturn has resulted in lower-than-expected fiscal revenues; on the other, expenditures have soared as a consequence of the **massive and unprecedented fiscal interventions** put in place in order to stabilise the financial and banking sectors and stimulate aggregate demand. The latest budgetary projections point to growing fiscal imbalances. The EU-wide general government headline deficit-to-GDP ratio is expected to reach 7.5% in 2010 and 6.9% in 2011, up from 0.8% in 2007. The debt level over GDP is forecast to increase from 58.7% in 2007 to 83.7% in 2011.

In designing credible exit strategies from the crisis, policymakers face therefore, extraordinary challenges. They need to **rethink the structure of their expenditures**, with a view to consolidating non-productive outlays, and at the same time they must secure a robust amount of tax revenues. The magnitude of the current imbalances suggests that increases in the tax burden may be inevitable in several countries.

We are all aware, however, that we cannot limit budgetary policy to the simple short-term matching between revenues and expenditures. A responsible strategy calls for initiatives that are consistent with the long-term policy objectives of strong and sustainable growth and jobs. For the EU Member States, this also means being prepared to face additional spending pressure stemming from the changes in the demographic structure in the near future. In addition, the commitments to be derived from the EU 2020 strategy will remind us of the environmental and social objectives that should constantly guide our action. Therefore, we need to extend our analysis of the quality of public finances from the expenditure side to include the **revenue side**.

The economic and financial crisis paradoxically offers a unique opportunity to fundamentally reconsider our tax systems. This means both assessing honestly the present framework and its (sometimes potentially conflicting) objectives, and setting the priorities for the 21st Century.

I believe we should concentrate mainly on 4 objectives.

Firstly, we need to aim at creating a tax environment in which citizens and businesses can reap the benefits of the single market.

Taxation policy is indeed an important element in ensuring the proper functioning of the Single Market which in turn will be crucial in helping the EU countries achieve renewed growth and competitiveness. The initiatives of the European Commission in this field aim at promoting **efficient, effective and fair taxation systems** to the benefit of citizens, businesses and the Member States.

One of my main priorities will be to identify and tackle **tax obstacles** for EU businesses and citizens so as to reduce compliance costs and administrative burden. I believe that we need to seek out tax costs that create "bottlenecks" restricting cash flow which is the lifeblood for business and ensure that tax systems facilitate investment in productive activity especially for SMEs.

In addition, I will seek to address the long-standing issues of **double taxation and discrimination**. The implementation of rules for computing tax bases that are common for all Member States, as

envisaged by the Common Consolidated Corporate Tax Base initiative, would be a major step to the removal of cross-border tax obstacles for business.

Finally, experience has shown that some at least of the approaches chosen in the **excise duty** area need to be revisited, and that the **VAT system** has to be significantly reviewed. To improve the coherence of the Single Market rules and the business environment, I will launch initiatives to enhance the effectiveness of the VAT system.

We have the privilege of having Professor Mario Monti here with us today. In the coming weeks, he will present his report on the re-launching of the Single Market. We have had a very fruitful exchange of views already and I understand that he fully recognises the important role that taxation policy has to play in ensuring that the Single Market works for EU citizens and Businesses. The results of his work will undoubtedly be, for me, a source of inspiration for the years to come.

Secondly, we have to address quality of our tax systems from smart green and inclusive growth prospective.

In the assessment of the current tax systems, it is important to tackle the distortions that could have potentially contributed to the creation of a crisis-prone economic environment. This might eventually result in changing certain provisions such as:

- differential fiscal treatment of debt and equity that might lead to excessively leveraged firms;
- deductions of interest potentially leading to over-indebted households and housing bubbles;
- excessive scope for tax arbitrage opportunities which would affect the risk-taking of certain actors in the financial markets;
- undue or inefficient reductions, exceptions or exemptions which are not economically justified and may even run against their original objective.

More radical reform aimed at shifting tax structures in a desirable way should also be considered. A good tax system should create the right

incentives to invest in research, development and innovation as well as in education and training. It has to encourage domestic entrepreneurship, and attract foreign productive capital. In other words, it should lay the groundwork for sustainable growth. While there is only weak evidence that the level of taxation affects economic performance, the links between the structure of tax systems and growth rest on stronger foundations. In this respect, the economic literature has shown that consumption taxes, property taxes and environmental taxes are the most growth-friendly, notwithstanding their potential equity implications.

Experts and policymakers have directed increasing attention to potential options for taxing the financial sector. This would serve a twofold purpose of having financial intermediaries share the burden associated with government interventions in the banking system, as well as complementing additional regulation against excessive risk-taking. The debate has initially focussed on some form of taxation of financial transactions, which could stabilise financial markets by reducing volatility due to speculative trading. More recently, following concrete policy initiatives, attention has shifted towards

imposing a levy on risky assets of financial institutions. By increasing its cost, this approach would restrain risky behaviour, and hence affect positively the stability of the financial sector. The US administration has put forward a proposal for a "Financial Crisis Responsibility Fee". The tax would fall only on the largest financial companies with the largest leverage, which presumably pose the greatest systemic risk. A similar instrument to tax certain assets of banks, rather than profits or transactions, the so-called "Stability Fee", has been introduced in Sweden.

Should this path be followed more widely? To answer this question, we need to assess carefully not only the revenue potential of these tax instruments but also their effects on the structure of the markets concerned as well as on the production and household sectors.

Thirdly, we need to meet our environmental goals and remain competitive at a global level.

Economic leaders of the future will be those who manage to combine high productivity with environmental efficiency. I am very aware of the positive impact that taxation can have on reaching our environmental objectives and I intend to push forward a **"green" taxation agenda**.

I will start this agenda by pushing the finalisation of the ongoing work on the revision of the Energy Taxation Directive. Fighting climate change and rationalising energy consumption are amongst the highest priorities of the EU. The **revision of the Energy Taxation Directive** would provide for an adapted and modernised framework of rules for the Single market: 1) it would introduce framework rules for CO₂ taxation for emitters not included in the EU emission trading system and 2) it would streamline remaining energy taxation to make it neutral and eliminate distortions.

The green taxation agenda can allow us to also identify provisions in our tax systems that give negative incentives to citizens and businesses when it comes to protecting the environment. We, in the Commission, will work closely with the Member States to correct these negative incentives.

Finally, we need to reinforce a coordination of our actions

The success of coordinated initiatives to prevent financial and economic meltdown shows that, in an integrated economy, working together as a Union can deliver the best results. Hence, there is substantial scope for coordination with respect to all these possible tax policy options. Indeed, designing and implementing reforms is always difficult.

The Single Market and the euro have resulted in interdependence amongst Member State economies. As such, unilateral tax reform in one Member State could prevent other Member States from conducting tax policies that allow them to achieve their economic, social and environmental policy objectives. It could create new

obstacles for businesses and citizens and endanger the functioning of the Internal Market. A **coordinated action** could help national policy makers build the necessary political support to undertake these challenging tasks.

The institutional architecture at the EU level already offers various tools for such coordination. My intention is to mobilise those tools to ensure that tax policies are coordinated where deemed necessary and in the face of difficulties to seek creative and workable solutions.

Coordination is, for example, key in the fighting against tax fraud and evasion, which deprive the Member States of billions of Euros each year. I will continue to work on **good governance**, both at EU and international level, and press for an early agreement on a number of key proposals currently on the table of the Council. In this respect, it is crucial that more efficient cooperation between the Member States be promoted. Harmful practices, such as profit shifting, should be fought against and information exchange promoted.

For all these reasons, it is imperative to acknowledge that we must work together.

Ladies and Gentlemen,

Tax systems face fundamental new challenges. The questions we will discuss during this Brussels Tax Forum are important for understanding which options are available for the future. I am confident that all of us, whatever our background is, will learn a lot from these two days. I am also confident that listening to the different experiences and opinions that will be expressed during this forum will enrich our understanding of tax policies and their role in a post-crisis world.

I thank you very much for your attention and I wish you a fruitful and successful conference.