

Brussels Tax Forum 2010

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Chair of the Economic and Monetary Affairs Committee
of the European Parliament

<p>Tax Policies For A Post-Crisis World</p>
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Commissioner,

Secretary of State,

Ladies and Gentlemen,

Thank you, Commissioner, for your kind invitation to this Brussels Tax Forum. I welcome your continuation of the tradition of your predecessors to invite me. It is extremely useful that tax practitioners from Member States, from both the public and private sector, meet at least once a year to have a frank and serious discussion over EU taxation policy.

Your task is immense. The new Commission has come into office when the EU is only starting to implement an exit strategy from the

financial and economic crisis, in which fiscal policy, including taxation, will play a significant role.

However, the Lisbon Treaty has not changed the provisions on taxation, which makes your task even more difficult, since you will have to deal with the taxation challenges of the exit strategy using the good old unanimity rule!

Therefore you have to look for alternative modes of action, including an increased cooperation between Member States and the appropriate mix of policy coordination and, in some matters, harmonisation.

These issues were made clear to you during your hearing at the Parliament in January. And as I have told you already, you can count on the ECON Committee to accompany and support your efforts assuming - and from what you have said I am sure they will - go in the direction of promoting growth and creating jobs. History shows that the European Parliament has consistently been a key ally for the Commission in the particularly complex and difficult area of taxation policy. The Parliament does not want the Taxation Commissioner to be the new Sisyphus of Europe! (The Corinthian King cursed to push

a boulder up a hill to see it roll down again – but then he had been naughty and we are not expecting that from you!) That is why I welcomed your formal commitment to engage in a constructive political dialogue and high level cooperation between our two institutions in the area of taxation.

I have noted your intention to launch a High-Level Tax-Policy Forum composed of personal representatives of Finance Ministers with a view to giving new political impetus to work at EU level on taxation. I would strongly suggest that you do not forget to have the Parliament on board, since this institution represents the voice of the citizens of Europe, at the EU level, for discussion of EU issues. This is all the more true after the entry into force of the Lisbon Treaty, as it was recalled by President Barroso at the 11 February 2010 European Council: ***“We need greater ownership of the EU strategy and, in this respect, the role of the European Parliament is particularly important.”***

In many – in fact I would say in most – things the Parliament has had a mutually supportive dialogue with your predecessor, though of course we have not agreed on everything, and in quite a few

instances we have both been disappointed by the slowness or lack of backing by Member States. CCCTB is one of those issues.

But in the face of these disappointments your predecessor brought forward more intensive, traditional controls based on cooperation, information exchange and data access. At this time of fiscal stress, enabling Member States to collect their full dues of taxes is even more important. With this driving force the Council must be more progressive in future. Those who refuse to cooperate more closely are undermining their very ability to collect taxes in the long run.

So let me reiterate once more that the important issues regarding administrative cooperation should be closed quickly. I believe that automatic exchange of information is beneficial. The Parliament has noted your commitment to complete the work initiated by your predecessor and to push for a rapid agreement in Council on the revision of the Savings Directive, the administrative cooperation directives and the anti-fraud agreements with the five non-EU European Countries, on which the Parliament has sent a clear, unambiguous message. More generally, the Commission should continue to pursue its efforts on the good tax governance field, also in the framework of cooperation with third countries.

I will now review briefly what appear to be your priorities as Taxation Commissioner in the light of the commitments you made at your January hearing, further developed in your letter of 20 January 2010 addressed to the Economic and Monetary Affairs committee.

Tax policy is part of the exit strategy

The idea of re-launching the internal market must go hand in hand with a coordinated and comprehensive exit strategy from the crisis.

The objective of sustainable growth and jobs can only be achieved with sound public finances. Taxation policy plays a central role in this respect, both from the revenue side (for we have to repair public finances!) and from the policy objectives side. This calls for choices and the Parliament is pushing for a genuine political debate on the choices, and balance, that Europe must make in order to maintain our competitiveness and sustain living standards.

How can taxation contribute to this?

I understand the Commission has decided - and rightly so - to launch a discussion with the Member States on how to adapt tax systems to the challenges of our times and how tax systems could contribute to

sustainable growth and jobs. There is an ongoing discussion, both in academia and within the international organisations, as to whether it is desirable to promote a gradual shift from income-based taxes to property, consumption and environmental taxes, as a way to encourage investment and savings as well as to increase the capital base. I do believe this debate is useful, provided that the necessary safeguards are put into place in order not to unduly penalise the less-mobile elements in this picture; this must cover low-income citizens and take account of the ageing population. In this respect, a precondition for any reform in this direction is to have a serious debate over the future of the most prominent form of indirect taxation, namely VAT.

Make VAT easier, simpler and consistent with the internal market

I welcomed very much your commitment, without hesitation, to investigate the way to put an end to the so-called “transitional” period. This “transition” has now lasted for nearly two decades! I know some Member States have shown reticence on several occasions to replace the “transitional” system by, say, a system based on the origin principle. They claim that introducing an origin-based system would require not only a much closer cooperation between Member States, including the introduction of a clearing system, but also a further

harmonisation of rates. As I explained in my own 2008 report on tax fraud, I am convinced that a clearing system is easy to create. It is only a matter of technical development and opens various options. With regard to closer cooperation, the new Regulation on Administrative Cooperation in the area of VAT, which includes the introduction of EUROFISC, will certainly result in better cooperation amongst Member States, such as would be required by origin or settlement systems. Finally, as regards VAT rates, there is room for a convergence of rates within the context of a VAT reform that could include a broader tax base and a radical overhaul of exceptions and derogations that make the system so burdensome. On the other hand, the European Parliament has clearly indicated that labour-intensive services, with no cross-border incidence, should continue to benefit from reduced rates.

In any event, it is urgent that the Commission launches a much-awaited debate on the future of the VAT system in the internal market. I think the Commission (and here I pay tribute to your predecessor Commissioner Kovacs) made substantial advancements in the fight against VAT fraud, firstly by raising the public awareness to this very serious problem and, secondly, by making proposals that go in the right direction. But a lot remains to be done as regards making the

VAT system easier to apply, with fewer burdens for tax payers. The recipe is simple: reduce exceptions and derogations, simplify, and make more efficient and more coherent the whole system.

When I look at the current list of existing rates throughout Europe, I am shocked at the incredible administrative cost that such a complex system represents both for businesses and for tax administrations. Nevertheless as a Parliamentarian I am also all too familiar with the preciousness with which these exceptions and derogations are defended!

Make taxation internal-market friendly

Many obstacles and burdens, not all of them unlawful vis-à-vis EU law, must also be tackled in the area of business taxation. Dealing with 27 different corporate tax regimes is not the best business card that Europe can present to attract investment. Cross-border loss relief, onerous transfer pricing rules, double taxation and discrimination could be addressed adequately through the introduction of a common consolidated corporate tax base (CCCTB). Already in 2005, the Parliament stressed the importance of adopting a common consolidated tax base which would fulfil the requirement of greater integration in the internal market and would be the best way of

tackling effectively the tax obstacles hampering companies' cross-border activities.

The Commission initiated a few years ago an unprecedented brainstorming with experts from government, the private sector and academia, who have been working in a transparent, open manner, publishing all documents and allowing the public to take a stake in this sometimes extremely technical debate. This formidable work to introduce the most radical reform of international corporate taxation of recent history came to a stop last year, and since then we have been wondering what was going to happen with this project. So it was interesting to hear from you in January, Commissioner, that you would immediately instruct your services, upon your confirmation as Commissioner, to complete the Impact Assessment for this project so that you are in a position to present a draft proposal to the College within 12 months. I look forward to hearing from you whether you have indeed instructed your services in that sense.

I reiterate for the doubters, that harmonisation of basis has a significant benefit, and I do not run scared of it under the red rag of a step towards rate harmonisation. That is a different matter, protected also and separately by veto.

More generally, double taxation also constitutes a real issue for ordinary citizens. The European Parliament and individual members (I know, I am one) regularly receive petitions and complaints from citizens across Europe who suffer, what is in many cases, a lawful application of income, inheritance and withholding taxes, but which leads frequently to unfair impositions on citizens who are involved in cross-border situations. How wrong it is that those engaging in what is the very essence of the internal market should have such bad treatment. So we also await with much interest the outcome of the public consultation that you announced last January at the Parliament.

Make energy taxation and climate-change consistent

You have confirmed that the reform of the existing Energy Tax Directive is the right approach to support global efforts to address climate change and the very ambitious targets that the EU has set upon itself. It is a long time since the Commission announced that it had started to reflect upon ways to bring energy taxation into line with climate change commitments, and in a way that is consistent with the Emission Trading System (ETS). In so far as the ETS covers around half of the emissions, it is appropriate to examine how the taxation system could complement the ETS. The general idea that the taxation framework should internalise the external costs looks like a sound

starting point to me. The EU legislator should in any event avoid the overlap between the ETS and any indirect tax on energy. It is also important, in these times of hardship for so many European households, that the design of the proposal carefully considers fuel poverty and inability to adjust consumption.

Taxation systems and financial stability

Finally, I would like to refer briefly to a topic that has been on the international agenda since the G-20 Pittsburgh Summit in September 2009, which is how can the financial sector contribute fairly towards economic recovery and development, taking into account that substantial costs and consequences of the financial crisis are being borne by the real economy, taxpayers, consumers, public services and society in general. In this context, the European Council of December 2009 also called on the Council and the Commission to identify the key principles which new global arrangements would need to respect.

What I can say at this stage is that any initiative in this sense must be based on a thorough analysis of the benefits and drawbacks for the introduction of financial transaction taxes, including, amongst other things, the potential to generate substantial revenue in comparison to

other sources of tax revenues, collection costs and distribution of revenues among countries, as well as the potential of the different options to affect both price levels and stability in the short-term and long-run as well as financial transactions and on liquidity. We also need to recognise that given the cross border nature of many financial transactions there is a taxation and representation dynamic concerning the policy of allocation and distribution.

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Let me conclude now by saying that tax policy is and must be a part of the exit strategy. It cannot be otherwise.

And tax cheats should be seen for the destructive force that they are, wrecking economies and forcing the ordinary taxpayer to pay much higher rates than should be necessary.

I would like to thank you again, Commissioner, for your kind invitation to the Third Brussels Tax Forum and I wish you good luck, and my support, in the challenges ahead.