

**COMMUNICATION FROM THE EUROPEAN COMMISSION
“TOWARDS A MORE EFFICIENT AND DEMOCRATIC DECISION MAKING IN
EU TAX POLICY” (COM (2019)8).**

FINAL DOCUMENT

The Finance Committee of Italy's Chamber of Deputies, having examined, pursuant to Rule of Procedure 127, the Communication presented by the European Commission on 15 January 2019 to the European Parliament, the European Council and the Council: “Towards a more efficient and democratic decision making in EU tax policy“ (COM (2019) 8 final);

Taking note of the information and opinions acquired in the course of the hearings held on the foregoing document;

Taking note also of the favourable opinion (with qualifications) of the European Union Policies Committee at its sitting of 10 December 2020;

Whereas:

- The proposal, originally put forward by the Juncker Commission and now fully endorsed by the von der Leyen Commission, is for a progressive four-step transition, to be completed by 2025, from from the special legislative procedure, which requires unanimity, to the ordinary legislative procedure. The transition would not require any revision of the EU's current regulatory framework, and would not affect the current competencies of Member States in matters pertaining to taxation;

- The unanimity requirement in the Council is clearly an impediment that impairs the efficiency of decision-making processes and has enabled some Member States to make opportunistic use of taxation proposals as a bargaining chip for their other demands, thereby preventing the achievement of results that would be beneficial to Europe as a whole;

- The European Commission has tentatively estimated that the cost of inaction and the consequent tax evasion, tax avoidance and fraud opportunities arising from failure to achieve full harmonisation amounts to more than 13 billion euros per year in lost VAT revenues alone;

- Further, the current procedure does not allow for an adequate involvement of the European Parliament, which, if the ordinary legislative procedure were to be applied to tax-related matters, would be able to contribute significantly to the updating of the European regulatory framework;

- The Commission proposes using the general “passerelle” clause provided for by Article 48(7) of the Treaty on European Union (TEU) rather than relying on the other provisions to be found in the Treaties, though it also takes them into consideration, such as enhanced cooperation or Article 116 of the Treaty on the Functioning of the European Union (TFEU), which stipulates the admissibility of qualified majority voting under the ordinary legislative procedure to eliminate distortions of competition caused by disparities in the tax regulations of EU countries;

- Under the meaning of the passerelle clause, the European Council may, by unanimous vote, decide to move from unanimity to qualified majority voting, i.e. the ordinary legislative procedure, provided that no national parliament objects within six months of the notification of the decision, and following the approval of the European Parliament;

Considering that:

- The Commission's proposal is part of a protracted and ongoing debate in Europe over the insufficiency of tax harmonisation in the EU, which refers in particular to direct taxation (the VAT regime being substantially harmonised already);

- The continuing presence of highly differentiated tax systems creates particular asymmetries given that the EU enforces substantially uniform budgetary rules on all Member States (especially those in the euro zone) along with a common monetary policy;

- This situation has distorting effects and widens the gaps between Member States' levels of growth and wealth, especially because some countries, particularly the small/medium-sized ones, take advantage of their ability to apply preferential taxation regimes with significantly lower rates than the EU average, thus engendering harmful tax competition for the sole purpose of attracting capital and investments;

- The situation has reached almost pathological levels, and in any case stands in clear contrast with the aim in Article 3 TEU to promote economic, social and territorial cohesion as one of the cornerstones of European integration, given that some Member States can be considered as tax havens for all intents and purposes;

- A further negative consequence of this internal tax competition has been the introduction of increasingly accommodating rules for the taxation of capital income, which forms a more mobile tax base than that based on labour income. This has had a seriously detrimental impact on employment and reduced the share of total disposable labour income;

- This issue has also been under discussion outside the ambit of the EU, as may be seen from the continuous attention that the OECD has paid in recent years to the improvement of tax cooperation between governments and its efforts to abate phenomena such as tax avoidance and arbitrage;

- Attempts to promote at least a progressive approximation of direct tax regimes have so far met with strong resistance from some Member States, as became very clear when the proposal for a common consolidated corporate tax base was not adopted;

- More generally, the conviction among some Member States that full autonomy in taxation is the traditional prerogative of the nation-state and a bastion of national sovereignty is one of the drivers behind the resistance to efforts to achieve

European tax harmonisation. Even so, this conviction cannot be allowed to cause such marked distortions as mentioned above;

- The objections raised by the parliaments of some Member States regarding the supposed violation of the rules on the division of responsibilities between the European Union and national governments, including the alleged failure to comply with the subsidiarity principle, are without merit because the European Commission's proposal is in keeping with the current terms of the Treaties and necessitates no amendment to the current regulatory framework;

- A case in point relates to the proposal on direct taxation, put forward by the European Commission and subsequently abandoned in the face of considerable push-back from certain Member States, seeking to establish a common consolidated corporate tax base, without attempting to harmonise the corporate tax rates themselves;

- The persistence of such significant disparities within the EU also weakens the credibility of the EU's international efforts, notably its initiative at the OECD/G20, to address the problem of the low level of taxation in the digital economy, where the phenomenon of tax avoidance is particularly marked and has now grown to gigantic proportions;

Acknowledging that the present final document, along with the opinion of the EU Policies Committee issued on 10 December 2020, needs to be transmitted

promptly to the European Commission as part of the political dialogue, as well as to the European Parliament and the Council,

does hereby express:

A FAVOURABLE OPINION

with the following remarks:

- a) The European Commission's concrete proposal highlighting what has now become an unavoidable issue is to be wholeheartedly commended, and the optimal solution now must be to proceed progressively towards the approximation of Member States' substantive legislation in this area;
- b) This process could also prove decisive in leading to a more equitable distribution of the tax burden across the various factors of production in a way that particularly benefits the labour factor. Such a change is all the more crucial now given the severe impact of the pandemic on employment;
- c) In light of all the above, it is necessary to be resolute and determined in pressing ahead with a strategy to rectify the current situation of regulatory fragmentation, which is undermining the prospect of fair competition among Member States, favouring opportunistic behaviour and, by enabling avoidance, evasion and fraud, is depriving the revenue authorities of significant resources;
- d) Furthermore, in view of the evident damage to fair competition caused by preferential tax regimes, the practicability of invoking Article 116 TFEU needs to be examined;

- e) Recourse to enhanced cooperation does not seem to be a viable option because it does not guarantee a homogeneous tax regime across the Union and, being restricted to only those countries taking part, would end up benefiting the countries that choose not to participate;
- f) Consequently, work must resume as soon as possible on instituting a common consolidated corporate tax base, which can form the first solid testing ground for an innovative approach towards remedying the current situation;
- g) It is also necessary to ensure that the European Parliament becomes more systematically involved in the process because fully democratic decision-making is indispensable for the framing of valid taxation policies.