

The role of tax policy in times of fiscal consolidation

Proceedings of the workshop organised by the Directorate General for Economic and Financial Affairs held in Brussels on 18 October 2012

Against the background of severe consolidation needs in many EU Member States, the workshop addressed the macroeconomic impact and redistributive effects of consolidation measures on the revenue side, two topics ranking high on the current taxation policy agenda.

In this context, the workshop discussed promising tax-based consolidation policies to minimise economic distortions and analysed which tax bases could help to safeguard social equity. It laid the theoretical foundations and presented results of cross country analysis, model simulations and individual country experiences. The conference ran two sessions: "Consolidation on the revenue side and its macroeconomic impact" and "Redistributive effects of consolidation on the revenue side", followed by a general panel discussion.

Marco Buti, Director-General of the Commission's DG ECFIN, gave an introductory statement, stressing the growing attention on national tax policies as they are at the core of the consolidation process and the structural growth-oriented policies. Against the background of severe consolidation needs in many Member States, mastering the macroeconomic and redistributive impacts of consolidation measures is paramount. Gilles Mourre, Head of the tax policy unit in DG ECFIN, gave a keynote address presenting the main consolidation related results of the recently published Commission report "Tax reforms in EU Member States 2012".

The presentations and discussions in the session on the macroeconomic impact of consolidation on the revenue side touched upon the balance between current measures and their medium-term effects. They also provided insights from macroeconomic modelling to design tax consolidation policy and looked into ways to measure consolidation efforts on the tax side. Two country-specific contributions showed how tax measures were used for consolidation purposes. The ensuing discussion focused on the taxation of financial sector rents and on the use of reduced VAT rates for specific sectors.

The session on the redistributive effects of consolidation on the revenue side discussed the best tax bases to be used to safeguard social equity and considered income and capital tax options to make the richest pay to meet fiscal adjustment needs. It was highlighted that all tax bases, including environmental distortions and wealth, should contribute to protect social equity and that a choice between tax bases was difficult. Finally, the country-specific presentations looked into experiences in distributing income through the tax system.

The concluding policy panel discussion highlighted that market regulation may be more efficient than tax policies and stressed the importance of international cooperation in terms of exchange of information. It was also considered important to raise legal certainty of the tax system and to simplify it, in order to increase the efficiency of the current tax structure.