Tax Policies in the European Union, 2017 Survey

New edition foreseen for November
Corporate income tax rates have steadily decreased
The Debt-Equity Bias in Corporate Financing in EU Member States
R&D intensities by sector, 2015 and R&D Intensity Targets for 2020

Graph 2.4: R&D intensities by sector, 2015\(^{(1)}\) and R&D intensity targets for 2020

- Business enterprise sector
- Government sector
- Private non-profit sector
- Higher education sector
- R&D intensity target 2020
Number of VC&BA Tax Incentives offered by EU Member States and outside of Europe, 2016
Main sources of tax uncertainty

**Tax Administration**
- Bureaucracy
- Inconsistent treatment by tax authority
- Inability to achieve early certainty pro-actively

**Specific International Dimensions**
- Inconsistent interpretation of international tax standards
- Tax legislation not in line with new business models
- Tax administration's lack of expertise

**Dispute Resolution**
- Lengthy decision making of the courts
- Inconsistent treatment by tax courts

**Legal Systems**
- Complexity in the tax legislation
- Unclear legislation

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Legend:
- Business Perspective
- Tax Administration Perspective
Changing Times

Average annual revenue growth

14% - Digital firms
3% - IT and telecoms
0.2% - Other multinationals
International Developments

• The long-term trend of falling statutory corporate income tax rates looks set to continue.

• Rates don’t give the whole picture of global tax competition, e.g. strengthening of tax incentives (e.g. Japan), special international provisions (e.g. US), and patent boxes.

• Several countries have also introduced anti-avoidance rules.
Why does competitiveness matter?

- **Increasing productivity** is essential to improving living standards.
- To do this, we need **businesses to invest and create jobs**.
- Important source of **tax revenues** for public services.
- **Long term welfare of EU citizens** is at risk if we do not provide a supportive and attractive environment for business to thrive.
How would you define a competitive tax system?

1. Is it a system that **attracts investments**?
2. Is it a system that **promotes local private sector growth** by fostering investments, innovation and entrepreneurship?
3. Is it a system that **ensures the full benefits of competition** by creating a level playing field?
4. Anything else?
Improving Competitiveness

What elements to focus on?

- **Reduce complexities** and **distortions** in the tax system.
- **Boost productivity** through well-designed R&D tax policies.
- **Support entrepreneurship and young innovative companies** through tax incentives.
- **Create a level-playing field** for businesses to foster competition.
- **Modernise the tax administration** to reduce compliance costs.
- **Offering low rates? Or rather a narrow base?**
- **...**
Tax Competition and Social Welfare

What are possible pros and cons of tax competition between countries?

• Does the absence of tax competition lead to excessive taxation?
• Or is it rather that in the long-term tax competition leads to lower public revenue?
• If yes, would this lead to an undersupply of public goods (e.g. schools, roads, digital infrastructure, redistributive policies)?
• Or rather tilt the choice of the tax mix with a higher burden borne by the immobile production factor (e.g. workers).
• Could it distort the allocation of capital between countries of different size (e.g. small vs large)?
What can be done at MS level? How can single market improvements help?

- Many measures can be implemented at MS level.
- Tailored to the specific needs of the local economy (and more flexible over time)
- Is it sustainable to keep reducing rates (even if increasing the base)? Is it good tax policy?
- At EU level: Reducing cross-border tax barriers and compliance costs through coordinated policies/actions: e.g. one-stop shop
- Compared to other large economies, e.g. China or the US, multinationals in the EU have to deal with a variety of different tax systems. Is it a disadvantage?