EU Tax Alert

Tax policy under a common currency

There is a significant amount of inter-governmental activity going on at the moment in the field of EU taxation. On 21 March 2012, the European Parliament's economic and monetary affairs committee voted to approve and indeed go further than the European Commission's proposal for a common consolidated company tax base and we consider below the implications for companies operating in the EU.

This followed the Brussels Tax Forum 2012 entitled ‘Tax policy under a common currency’ organised by the European Commission and held on 5-6 March 2012. That Forum conveyed a key message that the economic and financial crisis has changed the political landscape for the EU and, as a consequence, has reshaped the approach of Member States towards EU tax policy.

In his speech opening the Forum the EU Taxation Commissioner Algirdas Semeta highlighted the need for closer tax coordination between EU Member States to make tax systems more effective, particularly in the area of labor and capital taxation, in order to improve fiscal imbalances. The European Commission also hopes to boost growth by encouraging Member States to refrain from taxing items that need to be supported, such as income and savings, and instead tax areas where fewer distortions would be created or that are undesirable, such as waste and pollution. Commissioner Semeta told the Forum that more action will need to be taken to tackle harmful tax competition, in order to ensure fair tax assignment among Member States. “Fiscal devaluation” - achieved by reducing the cost of exports, by shifting tax away from income-based taxes (such as labor) toward indirect taxes and environmental taxes, will also need to be considered.

Commissioner for Employment, Social Affairs and Inclusion László Andor emphasized that, in order to encourage job-rich recovery, there is scope to consider shifting the tax burden from labor to other sources of revenue, such as through indirect and environmental taxes, provided that tax policy is coordinated more closely at EU level.

Chairperson of the European Parliament Economic and Monetary Affairs Committee Sharon Bowles called for closer attention to be paid to tax exemptions and tax breaks, noting that the value of these exemptions in
terms of foregone tax revenue exceeds 11% of the EU's total GDP. Mrs. Bowles welcomed the Commission's proposals for a Common Consolidated Corporate Tax Base (CCCTB), financial transaction tax (FTT) and VAT, stating that they are moving in the right direction in ensuring better coordination and in shifting away from harmful taxation on growth sectors. She also voiced support for the Commission's initiatives in the area of improving good governance in taxation, in particular tackling tax havens and aggressive tax planning.

The Tax Forum was followed, on 21 March 2012, by a meeting of the European Parliament's Economic and Monetary Affairs Committee. In that meeting, the majority of the committee voted to adopt the text of a report approving and going further than the European Commission's proposal for a common consolidated company tax base to be introduced in the EU. The report, prepared by Marianne Thyssen MEP, explains the advantages of the consolidated tax base, such as reducing red tape for companies by introducing a single tax return for all business throughout the EU; cutting costs; avoiding double and over-taxation by providing the option of consolidating profit and loss of all subsidiaries in the EU; making corporate tax more transparent; and discouraging tax evasion and forum shopping. The MEPs went further than the Commission by approving a road map under which the common consolidated corporate tax base would be compulsory. The new system would be introduced by means of enhanced cooperation, but would then be compulsory for all companies after a five-year transition period, with the exception of small and medium-sized enterprises, who could choose to opt in.

What does this mean for companies operating in the EU?

In this current political climate, it is inevitable that Member States will be pressured to act more closely together. The Franco-German green paper on business taxation is a clear example of this, where both countries have agreed to work together to converge their tax systems in the field of business taxation. The German Federal Ministry has stated that this green paper aims to set the direction for greater tax convergence in the EU and to support the European Commission proposal on the CCCTB. With regard to the FTT proposal, nine Member States, in favour of an EU-wide financial transaction tax (France, Germany, Austria, Belgium, Finland, Greece, Spain, Portugal and Italy), have called on the Danish Presidency of the Council of the EU for work to be accelerated in this area, suggesting that, in the event of deadlock among all Member States, an FTT could be introduced among these nine Member States through enhanced cooperation.

The European Commission has also recently launched a public consultation on double non-taxation, in order to tackle harmful practices and allow Member States to secure additional tax revenues. Proposals have also been put forward by the European Commission on energy taxation. Work and discussions on these proposals have been supported by the heads of state or government at the EU Summit of 1-2 March 2012, who have also invited the Commission and Finance Ministers to develop ways to improve the fight against tax fraud and tax evasion. They have urged Member States to review their tax systems with the
aim of making them more effective, particularly as regards tax collection and harmful tax competition.

Commissioner Semeta was clear in stating that the euro crisis has changed the approach to taxation within the EU. In his words, “Member States can no longer implement tax policies in isolation without a thought to what their neighbors are doing, particularly in a monetary union.” Member States will, therefore, be expected to cede some degree of tax sovereignty, in order to overcome the economic and financial difficulties within the Eurozone. One participant argued that this was particularly important in so far as it was only Germany that ceded sovereignty when it joined the monetary union, because it was the only Eurozone Member State that effectively had monetary sovereignty.

At the EU Summit of 1–2 March 2012, Member States recognized that tax policy will need to be a key aspect of budget consolidation and growth in the EU and, in this context, some Member States will be willing to use all tools available (including enhanced cooperation), in order to achieve these objectives. The European Commission will also encourage both Eurozone and non-Eurozone countries to engage in tax coordination initiatives, so as to avoid the creation of a two-tier EU. However, given the divergence of views on particular measures, tensions among Member States over tax harmonization and tax policy coordination are only likely to increase.

Companies need to be alert to the potential for changes in the area of tax policy. Although change on an EU-wide basis still requires unanimous approval, it seems that perhaps change that was previously thought of only as a future aspiration is now being more actively considered.

How Ernst & Young can help

Ernst & Young has a network of EU tax subject matter professionals in each Member State and has experience in advising on a broad range of EU tax issues.

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