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on the contribution of taxation and customs policies to the Lisbon Strategy
(2007/2097(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the contribution of taxation and customs policies to the Lisbon Strategy (2007/2097(INI))

The European Parliament,

- having regard to the Communication from the Commission to the Council and the European Parliament on 'The contribution of taxation and customs policies to the Lisbon Strategy' (COM(2005)0532),
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Coordinating Member States' direct tax systems in the internal market' (COM(2006)0823),
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Exit taxation and the need for coordination of Member States' tax policies' (COM(2006)0825),
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Towards a more effective use of tax incentives in favour of R&D' (COM(2006)0728),
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Implementing the Community Lisbon Programme: progress to date and next steps towards a common consolidated corporate tax base (CCCTB)' (COM(2006)0157),
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Tax treatment of losses in cross-border situations' (COM(2006)0824),
- having regard to its resolution of 10 March 2005 on the proposal for a Council directive amending Directive 90/434/EEC of 23 July 1990 on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States¹,
- having regard to its resolution of 13 December 2005 on taxation of undertakings in the European Union: a common consolidated corporate tax base²,
- having regard to the informal meeting of Economics and Finance Ministers (Ecofin Council) of 10 and 11 September 2004 and the informal Ecofin Council meeting of 7 and 8 April 2006,
- having regard to the Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on 'Tackling the

¹ OJ C 102 E of 28.4.2004, p. 569.

² Texts adopted, P6_TA(2005)0511.

corporation tax obstacles of small and medium-sized enterprises in the internal market - outline of a possible home state taxation pilot scheme' (COM(2005)0702),

- having regard to the Commission's 'European Tax Survey'¹ of 10 September 2004,
 - having regard to the conclusions of the Presidency of the Lisbon European Council of 23 and 24 March 2000, the Stockholm European Council of 23 and 24 March 2001, the Barcelona European Council of 15 and 16 March 2002 and the Brussels European Councils of 22 and 23 March 2005, 15 and 16 December 2005 and 23 and 24 March 2006,
 - having regard to the OECD report of 1998 on harmful tax competition,
 - having regard to the 2006 Commission report: Structures of taxation in the European Union: 1995-2004,
 - having regard to Rule 45 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A6-0391/2007),
- A. whereas the fact that national tax systems need increasingly to take into account the globalisation of the economy and the need to accumulate human capital in a knowledge-based society causes a surge in public spending,
- B. whereas the existence of 27 different tax systems in the European Union constitutes an impediment to the smooth functioning of the internal market, creates significant opportunities for the erosion of tax bases, for example, through tax avoidance, causes significant additional costs for cross-border trade and business in terms of administration and compliance, hinders corporate restructuring, renders EU undertakings less competitive at a global level, and leads to cases of double-taxation,
- C. whereas Parliament's resolution of 29 March 2007 on the future of the European Union's own resources² stresses that any future system of own resources in the European Union must respect the principles of the fiscal sovereignty of Member States as well as fiscal neutrality, and also mentions, as a possible long-term option for the future of the European Union's own resources, the imposition of a Community tax or new national taxes which would directly benefit the European Union,
- D. whereas tax competition in the EU has led - and continues to lead - to EU-wide economic gains by way of a dynamic corporate environment, but that appropriate EU-level tax coordination, which does not attempt to harmonise tax rates, can contribute to the benefits of tax competition being even more widely shared between undertakings, their employees and consumers,
- E. whereas there are certain countries within the European Union in which tax revenue from capital has increased thanks to greater general economic growth and, in particular, on account of the launching of many new companies and their significant profit growth, in

¹ EU tax survey, working paper No 3/2004 (SEC(2004)1128/2).

² Texts adopted, P6_TA(2007)0098.

contrast to those countries in which revenue capacity has decreased following slower growth,

- F. whereas overall taxation levels in the different Member States vary between 28,4 and 50,5 % of GDP, the corollary of which is that there are different levels of impact as regards the economy,
- G. whereas given the impact of R&D on growth and jobs, it is necessary to examine a more effective use of tax incentives for R&D;
- H. whereas achieving the objectives of the Lisbon Strategy necessitates increased coordination of Member States' fiscal policy; whereas Europe has to build a distinctive economic and social framework, which transforms a competitive advantage due to a diversity of cultural heritage and intellectual capital into innovation-driven productivity growth,
- I. whereas elements in the current fragmentation of tax systems constitute loopholes enabling tax evasion; whereas the tax revenue lost by fraud and tax evasion is estimated to amount to between EUR 200 and EUR 250 billion as regards VAT alone,
- J. whereas the accurate measure of a tax burden is the effective tax rate, which comprises the nominal tax rate and a tax base,
- K. whereas energy taxation is a useful tool in that it both applies the 'polluter pays' principle and achieves a reduction of pollution at source; whereas there is an urgent need to address the ever-growing environmental impact of traffic in order to address climate change,
- L. whereas energy taxation and the EU Emissions Trading System are two significant economic instruments in use to address energy consumption and CO₂ emissions,

The contribution of taxation policy to the Lisbon Strategy

1. Recalls that decisions linked to fiscal policy, such as the provision of fiscal incentives to undertakings, are the main instrument for developing and increasing the number of jobs, but also for increasing R&D investment and environmentally friendly technologies; stresses, however, that if fiscal policy is to make a substantive contribution to the Lisbon Strategy, the constant monitoring of the manner of redistributing additional revenue generated by such tax relief for undertakings is needed, with a view to ensuring that the additional revenue is in fact used to boost the labour market or make further investments in innovation and more energy-efficient technology;
2. Notes the trend in declining corporation tax rates in the European Union as well as in other OECD countries, which reflects increasing global competition, structural change and development in financial markets, notes however that the overall taxation level in Europe remains higher in comparison to that of other OECD countries; also draws attention to the fact that public revenue as a whole has increased despite declining effective rates of corporate tax; notes the need for a coordinated fiscal framework, including corporate tax arrangements, which should be favourable to companies, in particular SMEs, and geared to renewing growth and generating employment;

3. Shares the concern expressed in the Commission's communication on 'Coordinating Member States' direct tax systems in the internal market' that lack of coordination between direct tax systems may also lead to unintended non-taxation or abuse and, hence, erosion of tax revenues;
4. Regards it as necessary to set up a public finance policy environment that is favourable to growth and employment in the economy, and to promote healthy tax competition in the European Union so that the tax burden is widely shared by employees and consumers, businesses and those deriving income from capital; points out that, in terms of state funding, the European Union must promote tax arrangements to facilitate competition in the global economy, in order to encourage the creation of new businesses and technological innovation;
5. Underlines that, in general, tax systems in the Member States have gone too far in applying relatively high rates to low tax brackets, which discourages risk-taking and start-ups;
6. Considers that it is possible to have competitive tax arrangements without undermining state funding, as seen in those European countries that have in the last decade succeeded in increasing their tax revenue through tax cuts accompanied by a widening of tax bases, while controlling expenditure, thereby reducing their deficits;
7. Welcomes the Commission's intention to develop solutions for problems arising from transfer pricing rules in the European Union;
8. Welcomes the Commission's proposed pilot project to apply the principle of home state taxation to corporation tax paid by SMEs;
9. Recognises the difficulties facing SMEs in the European Union and in other OECD countries in financing their projects and endorses the provision of fiscal incentives to encourage SMEs to take more advantage of intermediary financing mechanisms, such as entrepreneurial share capital, business angel networks, etc.;
10. Draws attention to the shortfall in public revenue caused in the European Union by tax fraud and urges the Commission and the Member States to take further action to combat tax fraud;
11. Takes the view that in order effectively to combat tax evasion and tax fraud, a radical change is needed in the way that fiscal services operate based on modern organisational and sound administration principles and stresses that the Commission should take significant initiatives to support coordination at Community level in this sector;
12. Considers that VAT relief for community-oriented public or semi-public undertakings must be retained; believes that a one-stop-shop for companies to deal with their EU-wide VAT obligation must be introduced;
13. Calls on the Member States to seek to ensure greater fairness in the distribution of the tax burden;

14. Criticises the upward trend of VAT rates in the European Union, which has a regressive effect and reduces demand; stresses that the experience in some Member States has shown that greater revenue is generated when the tax base is widened, when employment growth causes an increase in consumption and when the conditions are right for black economy activities to become regularised, a process that would be endangered by an increase in VAT rates;
15. Reiterates its support for experimenting with lower VAT rates for labour-intensive services as a structural element of the VAT system, with flexibility for Member States to apply such rates in sectors of proximity services that are mainly local and do not distort cross-border competition;
16. Supports the Commission's efforts to gear fiscal policy towards more ambitious environmental objectives; considers that such action can promote greater research into, and a greater application of, environmental technologies, thereby developing the European Union's competitive potential in this field;
17. Notes that there is a need for an entirely new approach regarding excise duty policy; stresses that a policy line that is oriented to the determination of the minimum tax rate at the Community level should be rejected and that a generic code of conduct should instead be adopted, with the objective of encouraging Member States to approximate more closely their highly divergent rates of excise duty;
18. Believes that fiscal policy should generally contribute to requiring industry to internalise external costs but considers it appropriate to retain or introduce tax and other incentives to promote clean, non-fossil alternative energy sources;
19. Considers that an increase in fuel taxes would have a positive environmental impact if economical and attractive means of mass transport were available;
20. Believes that countries that are in the process of catching up are faced with higher external costs, for which they should not be penalised;
21. Stresses the need to continue reducing taxes on employment as an important way to achieve the Lisbon objective of an employment rate of 70 %;
22. Considers it important for the completion of the internal market to simplify customs legislation and to rationalise customs procedures with the purpose of reducing the administrative cost for enterprises engaged in cross-border transactions, maintaining a simplification of enterprises' cross-border compliance obligations; supports moving towards a simplified system for levying VAT on cross-border sales in the European Union, for example, by implementing the reverse charge mechanism;

Common consolidated corporate tax base

23. Supports the Commission's efforts to establish a pan-European and uniform consolidated corporate tax base (CCCTB); notes that the CCCTB will lead to greater transparency by enabling companies to operate according to the same rules abroad as at home, will increase cross-border trade and investment, and will significantly reduce administrative

costs and the possibility of tax evasion and fraud; considers it necessary that measures specifically designed to reduce tax compliance costs faced by SMEs, such as home state taxation provisions, be introduced;

24. Recalls that the CCCTB involves common rules regarding the tax base and in no way affects the freedom of Member States to continue setting their own tax rates;
25. Welcomes the Commission's intention to launch the CCCTB even in the framework of enhanced cooperation; points out, however, that this is a second-best solution, as in the absence of a comprehensive Community-wide system, the benefits of transparency and lower administrative costs may be partly mitigated;
26. Welcomes the Commission's view that the new tax base must be uniform and simplify the situation and recommends, while defining a framework of common standards, the development of a mechanism of allocating revenues among the Member States concerned;
27. Welcomes the Commission Communication 'Towards more effective use of tax incentives in favour of R&D' and highlights the need to share best practices and to clarify, to a maximum degree, the compatibility of such incentives with Community law;
28. Stresses that green taxation is a flexible policy instrument for achieving a given pollution target, for providing incentives for technological innovation and for further reducing pollutant emissions;
29. Encourages the Commission to address the issues relating to the consolidation of accounts, taxation and tax administration of the large groups operating across borders;

Towards a more effective use of tax incentives in favour of research and development

30. Considers that tax incentives to encourage R&D activities are of great importance to achieve the Lisbon Strategy goals, such as increasing R&D spending in Europe, in particular as regards facilitating R&D+i activities for SMEs; notes, however, that such tax incentives should not be used as indirect subsidies to national firms;
31. Is convinced that tax policy should be drawn up in such a way as to induce productivity-led growth in all sectors of the economy by allowing a taxpayer to either deduct or claim tax depreciation in respect of R&D expenditure;
32. Believes that the technological gap among Member States means that there are differences in tax policy and that action should only be taken at Community level when action by individual Member States cannot provide an effective solution; is of the opinion that the promotion of good practices for the design of R&D tax initiatives and better co-ordination of tax policy would help Member States meet the Lisbon objectives;

Exit taxation

33. Urges the Commission to adopt a more proactive strategy with regard to offshore financial centres;

34. Supports the Commission's view that, when assets are transferred to a third country, it is justified, because of the lack of cross-border administrative cooperation, to require taxes to be payable at the time of exit;

Tax treatment of losses in cross-border situations

35. Notes that cases concerning taxation are frequently brought before the Court of Justice of the European Communities and that this is mainly because of the lack of transparency and the high level of complexity of the taxation systems in Europe and calls, therefore, for a simplification of tax codes across the European Union; regards the ruling of the Court of Justice in the *Marks & Spencer* Case as giving Member States the right to maintain their tax systems; believes that, in situations involving cross-border losses by foreign subsidiaries, the double taxation of parent companies must be avoided, fiscal competence must be fairly distributed between Member States, losses should not be offset twice, and tax avoidance must be prevented;
36. Notes that without channels of cross-border loss relief, firms will seek to ensure that their profits are taxed in countries where the size of the home market is sufficient to generate enough profit to offset possible losses abroad;
37. Considers that it is necessary to work towards a system of cross-border loss relief, both for companies and groups with units abroad; welcomes the Commission communication on tax treatment of losses in cross-border situations;
38. Regards the Commission communication on tax treatment of losses in cross-border situations as an appropriate basis for further discussion, specifically as regards the possible solutions, pending the application of the CCCTB, identified in the communication for implementing a system of loss relief and recapture by the host Member State;
39. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

Objectives of taxation policy

Taxation can contribute to growth, prosperity and social cohesion via three channels. First and most elementary, the taxation system must be capable of raising sufficient revenues to finance a qualitatively high level of public services and social transfers. Secondly, taxation should create incentives aimed at guiding economic decisions in the direction of higher employment and more economical and sustainable use of natural resources. Thirdly, taxation always has the effect of redistributing income; it should do so in a way which strengthens effective demand and social balance while compressing the range of income distribution.

The communications of the Commission explicitly refer to the first two targets while completely neglecting the distributional aspect of taxation. At the same time, the taxation systems in the EU Member States have changed mostly fundamentally in the latter respect in recent years. A fiscal policy that boosts inequality and stifles demand will definitely not help to produce a dynamically growing economic region as called for in the Lisbon Strategy.

Consequences of tax competition

The rapporteur shares the Commission's concern that 'lack of coordination between direct tax systems may also lead to unintended non-taxation or abuse and, hence, erosion of tax revenues' (COM(2006) 823).

Without EU-wide coordination in respect of direct taxation, it will hardly be possible to regain room for political manoeuvre to shape taxation policy.

The removal of controls on capital movements and the development of tax havens began to place pressure on countries levying higher taxes on company profits as far back as the 1970s. The existence of 27 different tax systems in the EU internal market, together with complete freedom of movement of capital, means that companies operating across borders can choose from a whole range of possible tax avoidance strategies. Popular practices in this field include the use of group-internal transfer prices which transfer profits from the accounts of branches in countries applying high rates of tax to lower-taxing countries, or the setting up of financing companies in tax havens which can provide credit financing for investment projects throughout the world.

These and similar ploys lead to increasingly significant revenue losses for countries with high levels of corporation tax. If companies transfer not only accounting profits but also productive investment for tax reasons, additional pressure to harmonise tax rates downwards is generated. This is the process known as 'tax competition'. It is not confined to the field of corporate taxation. Since financial wealth is much more mobile than productively invested capital, taxes on personal wealth and capital income are subject to the same downward pressure.

Labour is, as a rule, less mobile than capital, and high-paid labour tends to be more mobile than

the mass of the workforce. One particularly non-mobile source of taxation is consumption, particularly the consumption of basic goods and services. It is only to be expected, therefore, that the existence of differing tax systems in a liberalised internal market is leading to a radical change in the structure of national tax systems. The mobile factors can exert enough pressure to blackmail governments into ever more generous reductions in the taxes to which they are subject, while public revenues are maintained by placing an ever-greater burden on less mobile tax sources. So taxes are switched from corporate to private income, from capital to labour income, from highly-paid to lower-paid labour and, generally, from taxing income and wealth to taxing consumption.

Evolution of taxes in the EU

The trends in taxation systems in recent years show that this process has indeed occurred. The average rate of taxation of corporate profits has fallen sharply. Since 1995, it declined by almost ten percentage points in the longer-standing EU Member States (EU-15), from 38% to 29.5%. Even the countries of eastern Europe, which in 1995 already had low rates of corporate tax, have systematically reduced their tax rates further.

(Figure 1)

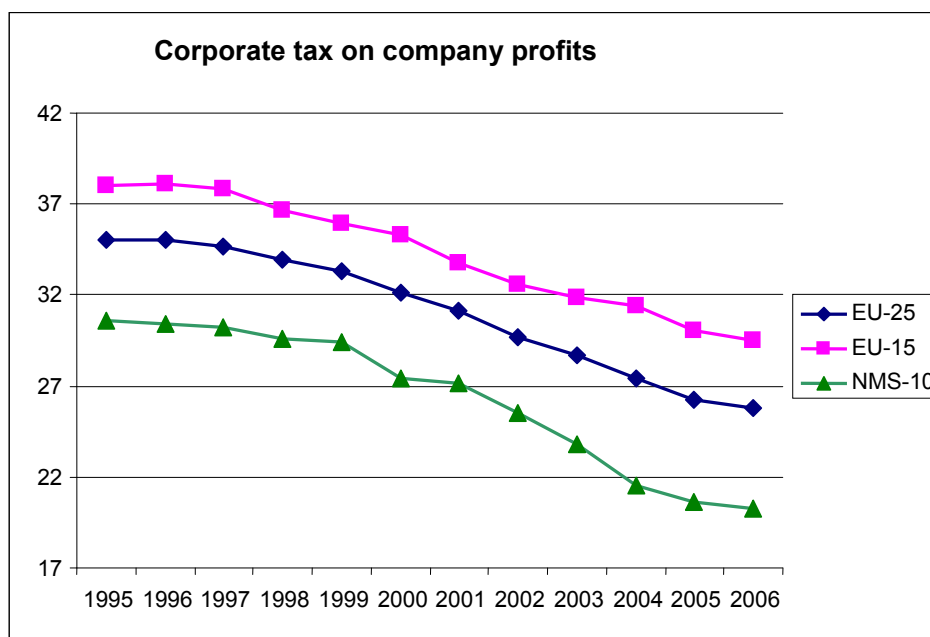


Figure 1. Source: EU Commission (2006)

The process is far from having been stopped yet. Germany is now preparing the next corporate tax reform, pushing down its tax rate below 30%. Denmark plans to reduce its statutory rate from 28 to 22%. These steps will certainly intensify the pressure on other countries. Since 'high-tax location' is a relative term, a race to the bottom is not unlikely.

Admittedly, it has often been argued that the cuts in corporate tax rates have been compensated by measures that broaden the tax base. But not just statutory tax rates, but also

effective tax rates have declined further since the mid-80s. Since 1995 the Commission has calculated for all EU countries so called 'implicit tax rates' (ITR) for capital, labour and consumption. The implicit tax rate for capital averaged 29.9% for the EU-15 in 2003, well below the ITR for labour, which was 36%. There are considerable differences between implicit tax rates on capital across Europe. At the upper end of the scale are countries like France and Denmark, with a capital ITR of 37 to 35%. Germany's capital ITR is well below average, at 21%. In the more recent east European Member States, capital ITR is 14%. Figure 3 shows trends in ITR over time for EU-15, EU-25, the new Member States and Germany.

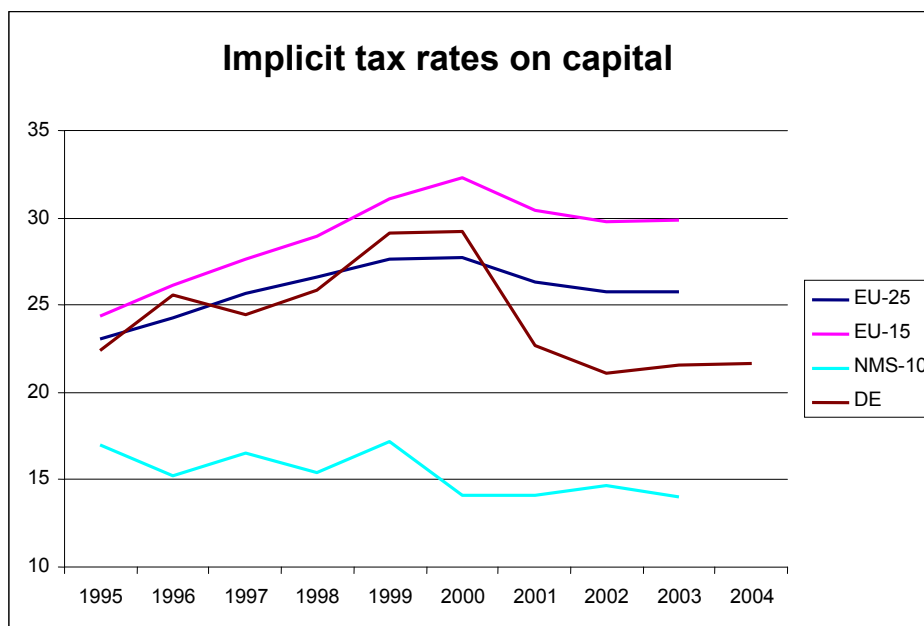


Figure 3. Source: EU Commission (2006)

These implicit rates of tax on capital supplied by the Commission must, however, be approached and interpreted with caution. They provide a rough means of comparing countries. Comparing trends in ITRs over time can be misleading, however, as the ITR significantly overestimates the real rate of tax on capital at times of booming stock exchanges and financial markets.

In addition to corporate profits, the tax burden on private capital income is also being steadily lightened. This is demonstrated by the EU-wide trend towards a dual system of income taxation. Consequently, income from interest and dividends is no longer taxed progressively, but subject to a fixed-rate 'flat tax' set far below the top rates of tax on earned income. Since capital income is much more concentrated than labour income, the introduction of a dual system of income tax amounts to a large measure of tax relief in favour of the wealthiest.

However, there have also been significant changes in the EU in relation to the taxation of income from employment. While the average rate of tax on income from employment has been largely unchanged for the last ten years, there has been a change in the proportion of taxes provided by the various income groups. In many countries, the top rates of income tax have been reduced in recent years. There has been an average fall of 4.7% since 1998 in the

top rate of tax on personal income in the EU-15 countries. Reductions of this kind confirm the shift in the tax burden from high- to low-income earners. Several eastern European countries have introduced a flat tax on all personal income. The tax segment that has grown most sharply since the mid-90s across the EU is indirect taxation, and above all VAT. In particular, Member States with below-average VAT rates have used the corridor of between 15 and 25% allowed under Community law to move towards the upper limit of the spectrum (Figure 4).

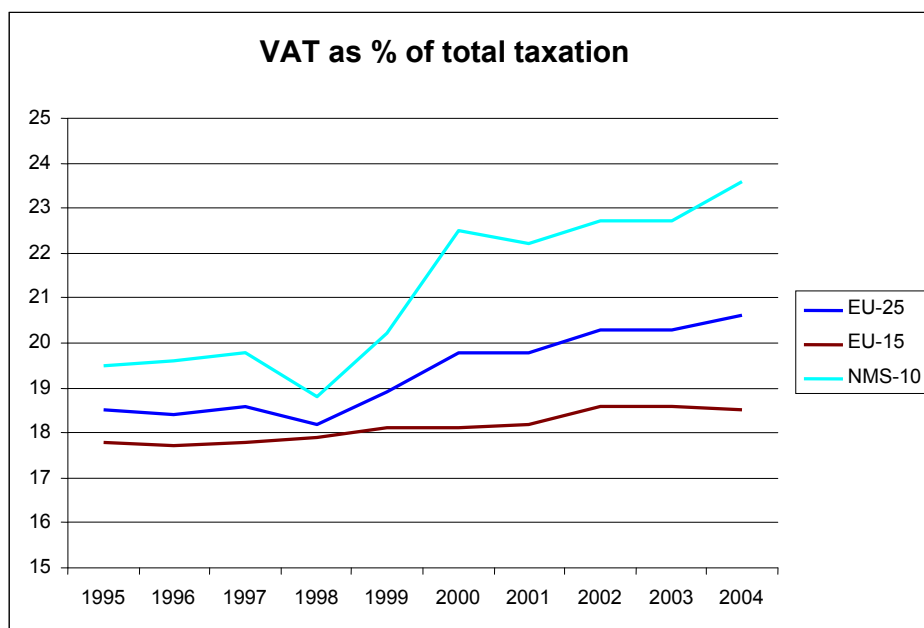


Figure 4. Source: EU Commission (2006)

In addition to VAT, most EU countries have introduced or increased 'eco-taxes' on electricity, gas, petrol and heating oil. To the extent that these taxes increased the cost of energy use for industry, they can be said to have had a positive environmental effect. However, as a rule industrial undertakings were provided with generous derogations, while private households bore the full brunt of the taxes. In these circumstances, the effect of the so-called 'green' taxes is to place a particular burden on low-earners, as poorer households spend a higher proportion of their income on energy and heating costs. Also, higher taxes on petrol only have a beneficial impact on the environment if inexpensive and attractive public transport alternatives are available. Otherwise their only effect is to tax consumption, with the usual regressive effect.

The Commission's view that 'a shift from labour to consumption and/or pollution taxes could help [...] to increase employment levels' (COM(2005) 532), is not, therefore, convincing.

The consequences of tax competition in the EU are therefore not so much a decline in total tax revenues as a structural change in tax systems. This change primarily effects the way tax is distributed. All the changes mentioned have the effect of reducing the tax burden on higher income earners, while the tax burden is increasing at the opposite end of the income scale. This result is the effect of lowering corporation tax, cutting top income tax rates and switching to a dual income tax system, and of the general shift of emphasis from direct to

indirect taxation. The tax system, instead of reducing social inequalities, is deepening the chasm between rich and poor.

There is therefore no justification for distinguishing between 'harmful' and 'beneficial' tax competition. Redistributing income upwards is harmful in any event. It undermines social equilibrium, reduces effective demand and leads to unused capacities, low growth and high unemployment.

In the long run, a regressive restructuring of the tax system is also likely to diminish public revenues. Actually, total tax revenues have declined since the end of the 1990s. (Figure 5) If this trend continues, the funding of essential public services and public investment will be at risk.

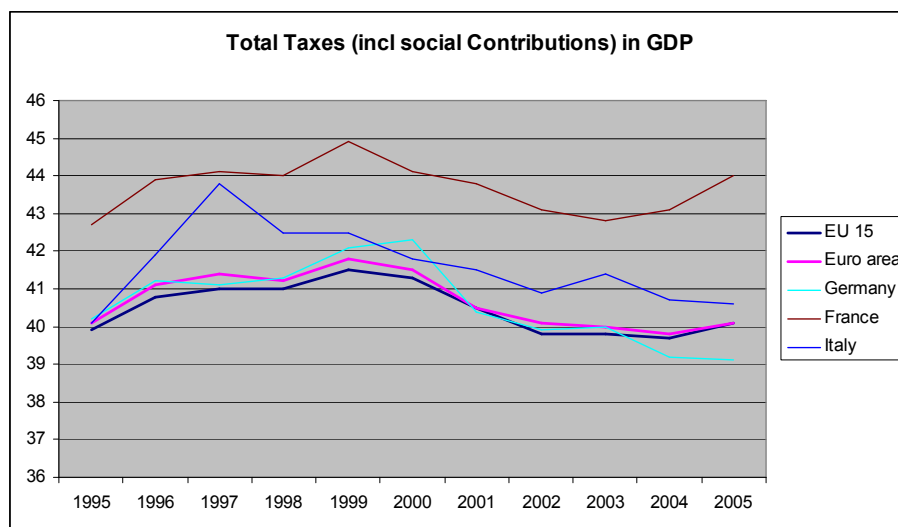


Figure 5. Source: Ameco database, EU Commission

National sovereignty in tax issues, however, is not only undermined by market forces. The EU Treaty, while not covering direct taxation, still restricts the tax policies of the Member States with its provisions. Hence, in recent years, companies have increasingly taken governments to court claiming that national tax laws were breaching European law. With its rulings the ECJ has created a pernicious body of European tax law that has contributed to the erosion of national tax revenues by increasingly outlawing national provisions.

The introduction of a tax system that contributes to growth, employment and social balance requires coordination between EU Member States to reverse the trends of the last two decades.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	9.10.2007
Result of final vote	+: 25 -: 8 0: 7
Members present for the final vote	Mariela Velichkova Baeva, Zsolt László Becsey, Pervenche Berès, Sharon Bowles, Udo Bullmann, David Casa, Christian Ehler, Elisa Ferreira, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Robert Goebbels, Donata Gottardi, Benoît Hamon, Gunnar Hökmark, Karsten Friedrich Hoppenstedt, Sophia in 't Veld, Othmar Karas, Piia-Noora Kauppi, Wolf Klinz, Christoph Konrad, Guntars Krasts, Astrid Lulling, Gay Mitchell, Cristobal Montoro Romero, John Purvis, Alexander Radwan, Bernhard Rapkay, Dariusz Rosati, Heide Rühle, Eoin Ryan, Antolín Sánchez Presedo, Olle Schmidt, Peter Skinner, Cristian Stănescu, Margarita Starkevičiūtė, Sahra Wagenknecht
Substitute(s) present for the final vote	Katerina Batzeli, Harald Ettl, Ján Hudacký, Werner Langen, Maria Petre, Bilyana Ilieva Raeva, Andreas Schwab
Substitute(s) under Rule 178(2) present for the final vote	