



# European taxes: Do we need them?

In the European Union, each member state is responsible for its tax system. Different national regimes help with tax competition, but can also lead to tax evasion or unfair rules in the Single Market. That is why better coordination or even standardisation of taxes is debated. What tax regulations are there already in the Single Market? What would be the advantages and disadvantages of a European tax? And what reforms are being discussed in Europe?

# Why are taxes a European issue?

**The member states in the EU determine their tax regime.** That is why the individual types of taxes and tax rates differ. The corporate tax rate in Ireland is only 13 percent, for example, while in France, it is almost three times higher at 34 percent and in Germany it is 30 percent and thus clearly above the EU average of 23 percent.

**This tax competition inside the EU has advantages and disadvantages.** Advocates of different tax rates argue that it is especially important for smaller member states. Countries such as Ireland, with a smaller labour market, would be less attractive than other locations without such an advantage. Critics fear by contrast that excessive tax competition could lead to a downward spiral with lower and lower tax rates, also known as a race to the bottom, where ultimately companies profit and the availability of public goods such as education may be jeopardised.

**The EU must simultaneously establish fair competitive conditions in the Single Market.** National tax systems may not distort competition, for example by providing unfair fiscal benefits for domestic companies. This is often referred to as a → **level playing field**. At the same time, the European Commission must also take care that member states are globally competitive.

**National taxes are also used for financing the EU budget.** This occurs indirectly through member state contributions. The European Treaties do not currently allow the EU to levy taxes directly. However, this rule could be amended with a view to reforming the complex EU financing system and closing the ↻ **Brexit gap**.

**Even if taxes are solely a matter for member states, that could change in future.** At least two issues, the Single Market and financing the EU budget, speak in favour of coordinating national tax policies through European regulations.



## **Level playing field**

For the European Single Market to function properly, all must be subject to the same rules. It is hard to find the right balance. Too much harmonisation will hurt competition; too little will lead to unfair competitive advantages. Therefore, the goal of creating the same conditions for all may result in either more or less regulation.

## **Brexit gap**

The departure of the United Kingdom from the EU will open up a gap in the EU budget, which is estimated to be more than ten billion euro a year. The budget must then either be reduced or financed differently.



**“Member States cannot give tax benefits to selected companies – this is illegal under EU state aid rules.”**

**Margrethe Vestager, EU Commissioner for Competition**  
on the Apple ruling by the European Commission  
on 30 August 2016



**“The EU Commission has understood that citizens find companies’ tax tricks to be very unfair. The patchwork arrangement of national tax codes to date is not compatible with the Single Market in Europe.”**

**Sven Giegold, Greens/EFA group in European Parliament**  
in reaction to a corporate tax reform introduced by the European Commission on 25 October 2016

# What is the state of the EU tax debate?

**The fight against tax evasion and/or avoidance has been discussed time and again.** The LuxLeaks scandal in 2014 showed that more than 300 companies used letter box firms in Luxembourg to shift profits to low tax countries and reduce their tax bills. Other EU countries have also been criticised for such practices.

**A ground-breaking decision was made in the case of Apple.** In 2016 the European Commission, as the highest competition authority, decided that the tax agreement between Apple and Ireland is illegal because it distorts competition in the Single Market. Apple had a tax rate of less than one percent for many years. The Commission decided that Ireland must demand repayment of illegal tax breaks to the tune of 13 billion euro.

**Some areas of tax policy are already coordinated,** as for example with the **EU Value-Added Tax Directive**. It is designed to prevent competition distortions among member states by establishing a minimum rate of VAT. Furthermore, the EU has wanted (for some time) to standardise corporate tax rates in the Single Market. In autumn 2016, the Commission presented a draft proposal for a **coordination of corporate taxes** designed to prevent illegal tax breaks and simplify Single Market rules.

**New ideas for taxation are on the table.** In early 2017, an expert group headed by the former Italian Prime Minister Mario Monti put forward proposals for financing the EU budget. It recommended that EU member states agree on taxes that contribute either to the functioning of the Single Market or the achievement of EU policy goals. Examples given were taxes on corporate profits, fuels, CO<sub>2</sub> or electricity. The member states would impose these taxes, with a portion of the revenue passed on to the EU.



## **EU Value-Added Tax Directive**

According to this 2006 directive, VAT in EU member states must be at least 15 percent. Furthermore, countries may introduce two reduced rates of at least five percent. Some goods and services may be exempted from the tax and others must be, such as medical treatments.

## **Coordination of corporate taxes**

The Common Consolidated Corporate Tax Base (CCCTB) is a proposal by the European Commission and sets out that companies must comply with just one national tax regime and not 28 different ones for determining its tax base.



*“It should no longer be about more money for the EU budget, but rather about using the funds better.”*

**Jens Spahn, State Secretary in the German Federal Ministry of Finance**  
in Die Welt in reaction to the Monti Report on 12 January 2017



*“One possibility is to use the subject of climate protection and to increase the taxation of CO<sub>2</sub> pollution rights in the EU, for example. This revenue is based on European laws, but has so far gone to member states.”*

**Günther Oettinger, EU Budget Commissioner**  
in an interview with DER SPIEGEL on 21 June 2017



# EUROPA

## briefing

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