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Taxation and the EU

Introduction

Creating a joined-up tax system across the EU is central to the operation of an effective single market. It is needed to make a level playing-field for businesses and to encourage EU citizens to move between member states. Yet most members in the European Council have resisted giving up their control of one of the most important powers of a sovereign government, fearing tax harmonisation. As a result, efforts to co-ordinate taxes have been slow and controversial.

History

The EU first became involved in members' tax policy in 1967, when it was decided that all member states should adopt a system of ***Value Added Tax (VAT)*** as part of the programme to create a single market. The 1985 Cockfield Report encouraged further steps to cover all ***indirect taxation***. In 1991, a unified excise duty was adopted and in 1992 a standard base of VAT rates of above 15% was set across the EU.

While this created some integration in the sale of goods, to have a real single market all countries would have to have a similar rate of business tax – effectively creating a European tax system with similar rates in all countries. This has not been introduced. The 1997 Code of Conduct on business tax tried to encourage integration by calling on countries not to compete with each other to have lower tax rates, but it is not binding. Some member states resent efforts by growing European economies such as Ireland, Spain and the Baltic States to attract businesses to their countries by cutting taxes. Yet these states argue that they need lower taxes in order to bring their economies in line with the European average.

What is the EU's role in taxation?

The EU does not have the power to collect taxes; this power rests with member states. It only has powers over indirect tax and members still have a veto on tax issues. Instead, the EU seeks to guide members into developing similar taxation systems, while the European Court of Justice (ECJ) uses its power to forbid taxes that go against the principle of the single market. On VAT, the EU has a strong interest in coordinating policy not only to promote a single market but because some of the money that goes into the EU budget is based on member states' VAT systems. Attempts to control *direct taxation* policy, such as the 1997 Code of Conduct, have been limited to encouraging tax co-ordination and trying to stamp out harmful tax practices. This has taken place largely through judgments by the ECJ rather than agreements between European politicians. Ministers in the Council of the EU have remained reluctant to move forward with tax harmonisation. There were fears that the Lisbon Treaty (2007) would enable tax harmonisation across the EU; misgivings about EU-wide taxation were a significant factor in Ireland's rejection of the Lisbon Treaty at a referendum in 2008. Negotiations to encourage Irish voters to accept the Treaty at a second referendum in 2009 included a promise not to move towards tax harmonisation. However, in August 2010 the Commission proposed the creation of an EU-wide tax, perhaps levied on air travel or financial transactions, to fund the EU budget. In April 2011 the Commission introduced a tax on CO_2 emissions that will take effect in 2013. It also proposed a common method for calculating corporate tax, and in September 2011 Commission president José Manuel Barroso presented a plan to create a new EU-wide financial transaction tax by 2014. The Financial Transaction Tax (FTT) is designed to make the banks shoulder a share of the burden of rebuilding Europe's post-crisis finances threat to small and medium sized businesses in the countries concerned. After negotiations broke down in December 2014, France and Austria brought the other 9 European partners back to the table in early 2015 with a compromise proposal to unblock negotiations. The meeting ended with an agreement to launch the tax on 1 January 2016.

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Facts and figures

- EU member states currently have different corporate tax rates: Belgium charges 34%, Germany charges 30% (with some local variation), and Ireland charges 12.5%.
- Member states have very different VAT rates, even though they are within EU-wide limits. In Luxembourg VAT is 15%, in Hungary it is 27%.

Arguments

For

- A co-ordinated tax system stops member states competing to have lower tax rates and thus makes the operation of a fair single market easier.
- Without an integrated tax system, companies operating in several member states often get taxed twice: this discourages the growth of businesses.
- Money and people should be allowed to move between member states without being taxed twice.

Against

- Different member states have different economic priorities: some may want low taxes to encourage enterprise while others want higher taxes to pay for welfare or healthcare.
- Countries must retain control over their own tax systems because the power to levy taxes is central to national sovereignty and decision-making.

"The times of individual national efforts regarding… tax polices are definitely over."
Gerhard Schröder, German Chancellor, 1998-2005

"If you create a tax haven for a few people, you condemn the rest to a tax hell."
Mario Monti, EU Competition Commissioner, 1999-2004

Technical Terms

- ***Value-added tax (VAT):*** an indirect tax on most sales of goods and services.
- ***Tax Harmonisation:*** the term used in the EU to describe a possible unified tax system.
- ***Indirect Taxation:*** a tax that is added automatically to the values of goods or services.
- ***Direct Taxation:*** a tax made on the wealth or income of private individuals or businesses.

Links

- http://ec.europa.eu/taxation_customs/index_en.htm

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