FACT SHEETS ON THE EUROPEAN UNION

European Parliament

Economic governance, general tax policy

PE 606.773

EN - 03/10/2017

ABOUT THE PUBLICATION

This leaflet contains a compilation of Fact Sheets provided by Parliament's Policy Departments and Economic Governance Support Unit on the relevant policy area.

The Fact Sheets are updated regularly and published on the website of the European Parliament: http://www.europarl.europa.eu/factsheets

ABOUT THE PUBLISHER

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Manuscript completed in October, 2017

DISCLAIMER

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1 - ECONOMIC GOVERNANCE - [4.1.4.]

Economic governance refers to the system of institutions and procedures established to achieve Union objectives in the economic field, namely the coordination of economic policies to promote economic and social progress for the EU and its citizens. The financial, fiscal and economic crises that began in 2008 showed that the EU needed a more effective model of economic governance than the economic and fiscal coordination in force until then. Developments in economic governance include reinforced coordination and surveillance of both fiscal and macroeconomic policies and the setting-up of a framework for the management of financial crises.

LEGAL BASIS

— Article 3 of the Treaty on European Union (TEU);

— Articles 2-5, 119-144 and 282-284 of the Treaty on the Functioning of the European Union (TFEU);

— Protocols annexed to the TFEU: Protocol No 12 on the excessive deficit procedure, Protocol No 13 on the convergence criteria and Protocol No 14 on the Eurogroup.

OBJECTIVES

A. Treaty provisions

The preamble to the TEU states that Member States are 'resolved to achieve the strengthening and the convergence of their economies and to establish an economic and monetary union'.

Article 3 of the TEU states that '[the Union] shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress [...]'.

Articles 2, 5 and 119 TFEU constitute the basis for economic coordination: they require the Member States to view their economic policies as a matter of common concern and to coordinate them closely. The areas and forms of coordination are specified in Article 121, which lays down the procedure related to the policy recommendations, both general (Broad Economic Policy Guidelines) and country-specific, and in Article 126, which establishes the procedure to be followed in case of excessive government deficits (4.2.1).

Articles 136 to 138 lay down specific provisions for those Member States whose currency is the euro, requiring them to strengthen their coordination and surveillance of budgetary discipline and economic policies.

Furthermore, Title IX on employment requires that employment policies be coordinated and consistent with the economic policies as defined in the broad guidelines (Article 146) (5.10.3).

B. Areas subject to economic governance

The financial, fiscal and economic crisis that originated in 2008 showed that financial, fiscal and macroeconomic imbalances are strictly interrelated, not only within the national boundaries, but also at EU level, and even more so for countries in the euro area. Therefore, the reinforced economic governance system, which was set up in 2011 and is still under further development, refers to several economic areas, including fiscal policies, macroeconomic issues, crisis management, macro-financial supervision and investments.

ACHIEVEMENTS

A. Economic coordination until 2011

Until 2011 economic policy coordination was mainly based on consensus, without legally enforceable rules, except in the fiscal policy framework defined under the Stability and Growth Pact (SGP) (4.2.1). The scope of economic coordination was wide, and different forms of cooperation could be implemented, depending on the extent to which the cooperation agreement involved was binding:

- Cooperation by exchange of information, e.g. the Macroeconomic Dialogue established at the Cologne European Council in 1999;
- Coordination as a crisis management tool, e.g. the setting-up of the European Financial Stability Mechanism in May 2010;
- The open method of coordination, by which the Member States set common targets but determined themselves how to achieve them (an example being the Lisbon strategy established in March 2000, with the European leaders encouraging the Member States to set benchmarks, identify best practices and implement relevant policies);
- Delegation of a policy, whereby the entire authority over a policy could be delegated to a single institution (examples include monetary policy (4.1.3) and competition policy (3.2.1), delegated to the European Central Bank (ECB) and the Commission respectively).

B. Economic governance since 2011

The crisis exposed fundamental problems and unsustainable trends in many European countries, and made it clear that the EU's economies are strictly interdependent. Greater economic policy coordination across the EU was considered necessary in order to address problems and boost growth and job creation in future. To this end, the system of bodies and procedures for economic coordination in place in the EU was revised and reinforced in 2011 (with the adoption of the 'six-pack'), in 2012 (with proposals on the 'banking union' and the setting-up of the European Stability Mechanism (ESM)), in 2013 (with the adoption of the 'two-pack'), in 2014 (with the setting-up of the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM)), and in 2015 (with the establishment of the European Fund for Strategic Investments (EFSI)).

1. Reinforced economic and fiscal surveillance, and coordination thereof under the European Semester

Reinforced governance includes: a new synchronised working model — the European Semester — to discuss and coordinate economic and budgetary priorities; tighter EU surveillance of fiscal policies as part of the Stability and Growth Pact (4.2.1); new tools to tackle macroeconomic imbalances (4.2.2); and new instruments to deal with Member States in financial distress (4.2.3).

The European Semester is a six-month period each year during which the Member States' budgetary, macroeconomic and structural policies are coordinated so as to allow Member States to take EU considerations into account at an early stage of their national budgetary processes and in other aspects of economic policymaking. The aim is to ensure that all policies are analysed and assessed together, and that policy areas which were previously not systematically covered by economic surveillance — such as macroeconomic imbalance and financial issues — are included. The key stages in the European Semester are as follows:

— In late autumn the Commission presents the Annual Growth Survey (AGS), which sets out what it considers to be the EU's priorities for the upcoming year, in terms of economic, budgetary and labour policies and of other reforms needed to boost growth and employment. The Commission proposes specific recommendations for the euro area as a whole, which are then discussed by the Council and endorsed by the spring European Council. The Commission also publishes the Alert Mechanism Report (AMR), which identifies those Member States with potential macroeconomic imbalances.

— In April the Member States submit their plans for sound public finances (Stability and Convergence Programmes (SCPs)) and for reforms and measures to make progress towards smart, sustainable and inclusive growth (National Reform Programmes (NRPs)). This joint submission allows account to be taken of complementarities and spillover effects between fiscal and structural policies.

— In May the Commission assesses the NRPs and SCPs, as well as the progress made in the Member States towards the targets defined in the Europe 2020 strategy and the correction of macroeconomic imbalances. On the basis of those assessments, the Commission proposes country-specific recommendations (CSRs), which are then discussed by different formations of the Council.

— In June/July the European Council endorses the CSRs, which are officially adopted by the Council in July, closing the annual cycle of the European Semester at the EU level.

The first European Semester was put into practice in 2011. EU-level discussions on fiscal policy, macroeconomic imbalances, financial sector issues and growth-enhancing structural reforms take place jointly during the European Semester, before governments draw up their draft budgetary plans (DBPs) for the upcoming year and submit them to national parliamentary debate in the second half of the year (the 'national semester'). Before finalising the budgets, euro area Member States submit their DBPs to the Commission, which provides its opinion, and to the Eurogroup, which assesses them.

2. By way of action to repair the financial sector, the EU has established new rules and has set up European supervisory authorities (ESAs), to prevent crises and make sure that financial players are properly regulated and supervised. Recently, these authorities have been integrated in the more complete Banking Union (4.2.4).

C. Actors

The European Council sets coordinated political priorities and issues guidelines at the highest level. The Council adopts recommendations and decisions, on proposals by the Commission. The Commission is in charge of drafting recommendations and decisions and of assessing their implementation. The Member States are in charge of national reporting, information exchanges and the implementation of the recommendations and decisions adopted by the Council. The Eurogroup (comprising the finance ministers of the Member States that have introduced the euro) discusses matters concerning the European Monetary Union (EMU), usually before the Ecofin Council meeting, and governs the ESM. The ECB participates in the Eurogroup's deliberations in matters pertaining to monetary or exchange rate policy. The Economic and Financial Committee (EFC) delivers opinions and prepares the work of the Council, as do the Economic Policy Committee (EPC) and the Eurogroup Working Group.

ROLE OF THE EUROPEAN PARLIAMENT

With the entry into force of the Lisbon Treaty, Parliament is now a co-legislator as regards the setting of rules for multilateral surveillance (Article 121(6) TFEU).

The legislative acts related to economic governance established the Economic Dialogue. In order to enhance the dialogue between the Union institutions, in particular Parliament, the Council and the Commission, and ensure greater transparency and accountability, Parliament's competent committees may invite the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup, to discuss their respective decisions or present their activities in the context of the European Semester. In the framework of this dialogue, Parliament may also offer a Member State that is subject to a Council decision under the excessive deficit procedure or excessive imbalance procedure the opportunity to participate in an exchange of views.

Under the European Semester, Parliament expresses its opinion on the AGS in specific resolutions, also taking into account the contributions gathered in a Parliamentary Week meeting on the European Semester with national parliaments, held at the beginning of the year. In late autumn, Parliament expresses its opinion on the ongoing European Semester cycle (including the CSRs as adopted by the Council), also taking into account the outcomes of a joint meeting with the chairs of the national parliaments' competent committees.

Parliament promotes the involvement of national parliaments through annual meetings with members of their relevant committees. Furthermore, and in line with the legal and political arrangements of each Member State, national parliaments should be duly involved in the European Semester and in the preparation of stability or convergence programmes and national reform programmes, in order to increase transparency and ownership of, and accountability on, the decisions taken.

Alice Zoppè
07/2017

2 - GENERAL TAX POLICY - [5.11.1.]

The power to levy taxes is central to the sovereignty of EU Member States, which have assigned only limited competences to the EU in this area. The development of EU tax provisions is geared towards the smooth running of the single market, with the harmonisation of indirect taxation having been addressed at an earlier stage and in greater depth than that of direct taxation. Alongside these efforts, the EU is stepping up its fight against tax evasion and avoidance, which constitute a threat to fair competition and are the cause of a major shortfall in tax revenues. According to the Treaty, tax measures must be adopted unanimously by the Member States. While tax policy is greatly influenced by the case law of the European Court of Justice, the European Parliament has the right to be consulted in this regard, except in budgetary matters, for which, as co-budgetary authority, it shares decision-making powers with the Council. Tackling tax avoidance and aggressive tax planning is a key challenge. Further cooperation, coordination and transparency between EU Member States in tax policy would help both to curtail significant revenue losses for Member States and ensure greater fairness across the EU. Further to progress already achieved and ongoing work, the Commission has proposed new initiatives in a Communication published in June 2016. Among these are the proposed revision of the Administrative Cooperation Directive and amendments to the Fourth Anti-Money Laundering Directive. Moreover, the Commission will this year seek to revive its proposal for a common consolidated corporate tax base and prepare an EU-owned 'Tax Haven list' by the end of 2017. In recent years, the European Parliament, along with its two special committees on taxation and the inquiry committee on the Panama Papers, has played a very important role in shaping new tax policy and initiating new initiatives at the EU and global levels, notably in the fight against tax avoidance, tax evasion, aggressive tax planning and money laundering.

LEGAL BASIS

The tax provisions chapter (Articles 110-113) of the Treaty on the Functioning of the European Union (TFEU), which relates to the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation; the chapter on the approximation of laws (Articles 114-118 TFEU), which covers taxes that have an indirect effect on the establishment of the internal market, with fiscal provisions not subject to the ordinary legislative procedure; other provisions relevant to tax policy, referring to the free movement of persons, services and capital (Articles 45-66 TFEU), the environment (Articles 191-192 TFEU) and competition (Articles 107-109 TFEU).

Enhanced cooperation (Articles 326-334 TFEU) can be applied in respect of tax matters. The main feature of EU tax provisions with regard to the adoption of acts is the fact that the Council decides on a Commission proposal by unanimity, with Parliament being consulted. Provisions adopted in the tax field include directives approximating national provisions, and Council decisions.

Direct taxation denotes taxes levied on income, wealth and capital, whether personal or corporate. Personal income tax (PIT) is not covered as such by EU provisions (rather, EU activity in this field is based on European Court of Justice case law). EU action on corporate income tax (CIT) is more developed, although it focuses only on measures linked to the principles of the single market. Indirect taxation consists of taxes that are not levied on income or property. It includes value-added tax (VAT), excise duties, import levies, and energy and other environmental taxes. As the development of EU tax provisions is geared towards the smooth running of the single market, the harmonisation of indirect taxation was addressed at an earlier stage and in greater depth than that of direct taxation.

OBJECTIVES

The EU tax policy strategy is explained in the Commission communication entitled 'Tax policy in the European Union – Priorities for the years ahead' (COM(2001) 0260). Provided that the Member States comply with EU rules, each is free to choose the tax system it considers most appropriate. Within this framework, the main priorities for EU tax policy are the elimination of tax obstacles to cross-border economic activity, the fight against harmful tax competition, tax evasion and tax fraud and the promotion of greater cooperation between tax administrations in ensuring control and combating fraud. Increased tax policy coordination would ensure that the Member States' tax policies support wider EU policy objectives, as set out most recently in the Europe 2020 strategy for smart, sustainable and inclusive growth.

ACHIEVEMENTS

The 'Activity Reports' in the tax field[1] published by the Commission present the EU's achievements and the tax issues still to be addressed.

One tax policy issue which ranks high on the EU agenda is the fight against tax evasion and avoidance. The fight against tax fraud and evasion covers both direct taxation and indirect taxation and relies in particular on information-sharing. In the EU, around EUR 1 trillion in tax revenue is lost each year to tax evasion and avoidance, constituting a threat to fair competition and a huge loss of state income. To combat tax fraud, the Commission has adopted an Action Plan (COM(2012) 0722) and two recommendations, one on aggressive tax planning (COM(2012) 8806) and the other on the promotion of good governance in tax matters (COM(2012) 8805). This was a follow-up to a communication of June 2012 on concrete ways to reinforce the fight against tax fraud and tax evasion (COM(2012) 0351).

In May 2013 the Council adopted conclusions on tax evasion and tax fraud (Council document 9405/13), highlighting the need for a combination of efforts at the national, EU and global levels, and confirming support for work within the G8, the G20 and the OECD on the automatic exchange of information. On the same occasion, the Council also discussed a revision of the Savings Taxation Directive aimed at enlarging its scope to include all types of savings income as well as products that generate interest. On 24 March 2014 the Council adopted a directive (2014/48/EU) amending the EU Savings Directive (2003/48/EC). The amended directive broadens the scope of the current rules in order to close certain loopholes by strengthening EU rules on the exchange of information on savings income and enabling the Member States to clamp down more effectively on tax fraud and tax evasion.

Tightening EU corporate tax rules on aggressive tax planning (transfer pricing transactions, intra-group payments), preventing harmful tax competition and improving

[1]http://ec.europa.eu/atwork/synthesis/aar/doc/taxud_aar_2015.pdf

VAT compliance can help to close tax loopholes. Consideration is being given to these loopholes as part of the EU legislative process. Progress is being made, for instance, on the tax treatment of intra-group payments and on the treatment of transfer pricing transactions. The introduction of a common consolidated corporate tax base (CCCTB) could eliminate a number of tax planning opportunities together with most of the tax obstacles affecting the economic efficiency of the single market. The proposal had been on the negotiating table without any significant progress being made, but has been relaunched with the Commission communication (COM(2015) 0302 final) entitled 'A fair and efficient corporate tax system in the EU: 5 key areas for action'.

At the international level, information-sharing has progressed. The agreement of 29 October 2014 on the early application of the new OECD global standard (GS) for the 'Automatic exchange of information' (AEOI) provides that the information the signatories (50 countries, including the 28 EU Member States) are to collect from 31 December 2015 will start to be exchanged in 2017, instead of 2018. The 2010 US Foreign Account Tax Compliance Act (FATCA) includes similar elements to those in the OECD standard. EU Member States will apply the AEOI in 2017 under the revised directive on administrative cooperation, which is aimed at transposing the global OECD standard on the AEOI into EU legislation, as agreed by the Council on 14 October 2014. The provisions of the EU Savings Tax Directive are more limited, and it will be suspended once the AEOI applies.

The G20/OECD Action Plan on Base Erosion and Profit Shifting (BEPS) tackles loopholes in national tax systems that are exploited by multinational enterprises to avoid paying taxes or to reduce their taxable revenue. On 5 October 2015, the OECD presented the Final BEPS package for reform of the international tax system to tackle tax avoidance. On 10 October 2015, G20 finance ministers endorsed reforms to the international tax system for curbing avoidance by multinational enterprises. On 28 January 2016, the Commission proposed a framework for a new EU external strategy for effective taxation (COM(2016) 0024).

Policy initiatives in the field of direct taxation include a proposal for a Financial Transaction Tax (COM(2011) 0594); Directive 2008/7/EC concerning indirect taxes on the raising of capital; negotiations on saving taxation agreements with EU third countries to improve tax compliance and automatic exchange of information, with a view to implementing the new single global standard developed by the OECD and endorsed by the G20; enhanced cooperation in the area of financial transaction tax (COM(2013) 0071); the taxation of savings (Ecofin Council Conclusions of 10 November 2015 on the repeal of Savings Taxation Directive 2003/48/EC).

Policy activity in the field of indirect taxation include a Green Paper on the future of VAT (COM(2010) 0695), followed by a communication on reform of the VAT system (COM(2011) 0851); a proposal for a directive (COM(2011) 0169) amending the Energy Taxation Directive (2003/96/EC) with the aim of achieving smarter energy taxation in the EU, accompanied by a communication (COM(2011) 0168); numerous individual arrangements concerning excise duties (e.g. on alcohol, tobacco and energy); the publication by the Commission of an Action Plan on VAT (COM(2016) 0148) aiming at the creation of a modernised and fraud-proof single VAT area and responding to the challenges of taxation in the digital economy.

ROLE OF THE EUROPEAN PARLIAMENT

Parliament has generally endorsed the broad lines of the Commission's programmes in the field of taxation.

Recently, the fight against tax fraud, tax evasion and avoidance, and money laundering has been an EP policy priority. The 'Panama Papers' and 'Lux Leaks' revelations have shown the urgent need for the EU and its Member States to fight tax evasion, tax avoidance and aggressive tax planning, and to act for increased cooperation and transparency, particularly by ensuring that corporate taxes are paid where value is created, not only among Member States, but also globally.

On 27 October 2015, Parliament adopted a legislative resolution on mandatory automatic exchange of information in the field of taxation[2]. The 'Lux Leaks' scandal revealed the extent of the use of secret deals featuring complex financial structures designed to obtain drastic tax reductions. Parliament expressed its strong determination not to tolerate tax fraud and tax avoidance and to advocate a fair distribution of the tax burden between citizens and companies.

On 25 November 2015, Parliament adopted a resolution on tax rulings and other measures similar in nature or effect[3]. The work carried out by Parliament had shown that taking tax measures to reduce some large corporations' overall tax liabilities at the expense of other countries was a widespread practice within Europe and beyond. Parliament called on the Commission to more thoroughly address corporate taxation issues, including the harmonisation of definitions; harmful tax practices and aggressive tax planning schemes; cooperation and coordination on advance tax rulings; state aid; the code of conduct; the protection of whistle-blowers; patent, knowledge and R&D boxes; a comprehensive, transparent and effective automatic exchange of tax information and a mandatory common consolidated corporate tax base; tax havens; and proposals for a EU taxpayer identification number.

On 16 December 2015, Parliament adopted a resolution with recommendations to the Commission on bringing transparency, coordination and convergence to corporate tax policies in the Union[4]. While respecting Member States' sovereignty in relation to tax policy, Parliament stated that there is a need for EU legislative measures to improve transparency, coordination and convergence within corporate tax policies in the EU. The resolution lists a series of measures that called for the Commission to submit to Parliament by June 2016 one or more legislative proposals.

On 6 July 2016, Parliament adopted a resolution on tax rulings and other measures similar in nature or effect[5]. Recalling that the OECD estimates the revenue loss at global level to be between 4% and 10% of all corporate income tax revenue, Parliament reiterated the conclusions of its resolutions of 25 November 2015 and of 16 December 2015.

Following these requests, the Commission made a series of proposals, some of which have already been agreed by the Council.

[2]Texts adopted, P8_TA(2015)0369.
[3]Texts adopted, P8_TA(2015)0408.
[4]Texts adopted, P8_TA(2015)0457.
[5]Texts adopted, P8_TA(2016)0310.

On 8 March 2016, the Council agreed on an updated directive on the automatic exchange of information between national tax administrations, following a proposal by the Commission (COM(2016) 0025). The 4th Directive on Administrative Cooperation (DAC4) will require multinationals to report, *inter alia*, on their revenues, profits, taxes paid and number of employees in every country in which they operate.

On 12 April 2016, the Commission made a proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches (COM(2016) 0198). On 5 July 2016, the Commission adopted (i) a communication on further measures to enhance transparency and the fight against tax evasion and avoidance (COM(2016) 0451); (ii) a proposal for a Council Directive amending Directive 2011/16/EU as regards access to anti-money-laundering information by tax authorities (COM(2016)0452); (iii) a proposal for a Directive of the Parliament and the Council amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing and amending Directive 2009/101/EC (COM(2016) 0450).

On 12 July 2016, the Council adopted Directive 2016/1164/EU laying down rules against tax avoidance practices that directly affect the functioning of the internal market[6]. This directive closes a series of loopholes that were revealed by the 'Lux Leaks' scandal.

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06/2017

[6]OJ L 193, 19.7.2016, p. 1.

3 - DIRECT TAXATION: PERSONAL AND COMPANY TAXATION - [5.11.2.]

The field of direct taxation is not directly governed by European Union rules. Nevertheless, a number of directives and the case law of the Court of Justice of the European Union (CJEU) establish harmonised standards for taxation of companies and private individuals. Moreover, communications have been issued emphasising the importance of preventing tax evasion and double taxation. Tax rulings for large companies in certain Member States, which could potentially result in distortions of competition, are also a subject of political debate.

LEGAL BASIS

The EU Treaty makes no explicit provision for legislative competences in the area of direct taxation. Legislation on the taxation of companies has usually been based on Article 115 of the Treaty on the Functioning of the European Union (TFEU), which authorises the Union to adopt directives on the approximation of laws, regulations or administrative provisions of the Member States which directly affect the internal market; these require unanimity and the consultation procedure.

Article 65 TFEU (free movement of capital) allows Member States to distinguish between taxpayers who are not in the same situation with regard to their place of residence or with regard to the place where their capital is invested. However, in 1995, the CJEU ruled (in Case C-279/93) that Article 45 TFEU is directly applicable in the field of taxation and social security: that article stipulates that freedom of movement for workers entails ‘the abolition of any discrimination based on nationality [...] as regards employment, remuneration and other conditions of work and employment’. Articles 110-113 TFEU require Member States to enter into negotiations on the abolition of double taxation within the EU. Article 55 TFEU forbids discrimination between the nationals of Member States as regards participation in the capital of companies. Most of the arrangements in the field of direct taxation, however, lie outside the framework of EU law. An extensive network of bilateral tax treaties involving both Member States and third countries covers the taxation of cross-border income flows.

OBJECTIVES

Two specific objectives are the prevention of tax evasion and the elimination of double taxation. In general terms, a degree of harmonisation of company taxation is justified in order to prevent distortions of competition (in particular in connection with investment decisions), to prevent ‘tax competition’ and to reduce the scope for manipulative accounting.

RESULTS

A. Company taxation

Proposals to harmonise corporation tax have been under discussion for several decades (1962: Neumark report; 1970: Van den Tempel report; 1975: proposal for a directive on the alignment of tax rates between 45% and 55%). In 1980, the

Commission stated that the attempt at harmonisation was probably doomed to failure (COM(80) 0139), and concentrated on measures to complete the internal market. In the 'Guidelines on corporation tax' of 1990 (SEC(90) 0601), three proposals were adopted, namely the Merger Directive (90/434/EEC — now 2009/133/EC), the Parent Companies and Subsidiaries Directive (90/435/EEC — now 2011/96/EU), and the Arbitration Procedure Convention (90/436/EEC). The fate of the 1991 proposal for a directive on a common system of taxation applicable to interest and royalty payments made between parent companies and subsidiaries in different Member States illustrates the often protracted nature of the negotiations with the Member States: despite being revised and receiving a favourable opinion from Parliament, the Commission withdrew it as a result of the failure to reach agreement in the Council. A new version appeared in 1998 as part of the 'Monti package' and was subsequently adopted as Directive 2003/49/EC.

Meanwhile, the Ruding Committee of independent experts was established in 1991. Its report recommended a programme of action to eliminate double taxation, harmonise corporation tax rates and ensure full transparency of tax concessions offered by Member States to promote investment. The Commission made a number of proposals which were later withdrawn.

In 1996, the Commission launched a new approach to taxation. In the field of company taxation, the main result was the Code of Conduct for Business Taxation, adopted as a Council resolution in 1998. The Council also established a Code of Conduct Group (known as the 'Primarolo Group') to examine cases of unfair business taxation. The group identified 66 tax practices to be abolished within five years. In 2001, the Commission prepared 'an analytical study of company taxation in the European Community' (SEC(2001) 1681). The accompanying Commission communication (COM(2001) 0582) noted that the main problem faced by companies was that they had to adapt to different national regulations in the internal market. The Commission proposed several approaches to the problem of providing companies with a consolidated tax base for their EU-wide activities: home state taxation, an optional common consolidated tax base (CCTB), a European company tax and a compulsory, fully harmonised tax base. In 2004 a working group was set up, and the results of its work were incorporated into a Commission proposal (COM(2011) 0121). The proposed 'common consolidated corporate tax base' (CCCTB) would mean that companies would benefit from a system with a central contact point to which they could submit their tax refund claims. They would also be able to consolidate all their profits and losses made in the EU. Member States would retain full responsibility for setting their own rates of corporate tax. In April 2012, the European Parliament adopted its legislative resolution on this proposal. In June 2015, to give fresh impetus to the negotiations in the Council, the Commission came up with a strategy for re-launching the CCCTB proposal in 2016. The Commission opted for a two-step process, separating the common base and consolidation elements, with two interconnected legislative proposals: on a common corporate tax base (CCTB) and on a common consolidated corporate tax base (CCCTB). While it would call for the introduction of the CCCTB to be compulsory, there would be provisions for phasing it in. The revamped proposal, adjusted to take account of work done by the OECD, could also address tax avoidance by closing regulatory gaps between the national systems and thus putting a stop to common tax-avoidance arrangements.

B. Fair taxation, tax transparency and measures to combat tax avoidance and harmful tax competition

In the course of the 2008 financial crisis, attention turned to combating tax avoidance and to equitable taxation of companies. Increased transparency is seen as one of the ways of achieving this, as evidenced in the Tax Transparency Package of 18 March 2015, which included the Council Directive on the automatic exchange of information on tax rulings between Member States (Directive (EU) 2015/2376) and the communication on tax transparency to fight tax evasion and avoidance (COM(2015) 0136). In 2015, the Commission adopted an action plan for a fair and efficient corporate tax system in the European Union (COM(2015) 0302), with provisions for reforming the corporate tax framework in order to combat tax abuses, ensure sustainable revenue and support an improved environment for business in the internal market. In January 2016, the Commission proposed a package of measures to combat tax avoidance, which included a proposal for a Council directive to combat tax avoidance practices with an immediate impact on the functioning of the internal market (COM(2016) 0026). The Council adopted this directive in July 2016. In April 2016, the Commission proposed an amendment to Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches. The proposal requires multinational enterprises (with a consolidated turnover of at least EUR 750 million) to disclose publicly certain parts of the information submitted to the tax authorities.

Member State tax systems must be consistent with the EU rules on State aid. In connection with the Commission's ongoing investigation into tax rulings made for certain companies, the European Parliament set up the temporary Special Committee on Tax Rulings and Other Measures Similar in Nature or Effect (the TAXE Committee) and the subsequent TAXE 2 Committee. The mandate of the TAXE 2 Committee ended in August 2016.

C. Taxation of SMEs

Since 2001, the Commission has been pursuing the 'home state taxation' scheme, under which SMEs would be allowed to compute their profits (including those generated in other Member States) on the basis of their (familiar) home state rules. An Expert Group on Removing Tax Obstacles to Cross-border Venture Capital Investments was set up, and reported in 2010.

D. Personal taxation

1. Income tax

The taxation of individuals who work in, or draw a pension from, one Member State but live or have dependent relatives in another has always been a contentious issue. With bilateral agreements, double taxation can generally be avoided, but this has not resolved issues such as the application of different forms of tax relief available in the country of residence to income in the country of employment. In order to ensure equal treatment between residents and non-residents, the Commission put forward a proposal for a directive on the harmonisation of income tax provisions with respect to freedom of movement (COM(1979) 0737), on the basis of which taxation in the country of residence would have been the rule. Following its rejection by the Council, this proposal was withdrawn, and the Commission merely issued a recommendation on the principles that should apply to the tax treatment of non-residents' income. In addition, proceedings were brought against some Member States for discrimination against non-national employees. In 1993, the CJEU ruled (in Case C-112/91) that a Member State cannot treat non- nationals from another Member State less favourably in terms of the collection of direct taxes than it does its own nationals (see Case C-279/93). In general, integration in the field of personal direct taxation can be said to have been furthered more by CJEU rulings than by legislative proposals. In 2016, the Commission adopted a proposal for a directive (COM(2016) 0686) aiming to improve existing double taxation dispute resolution mechanisms in the EU.

2. Taxation of bank and other interest paid to non-residents

In principle, taxpayers are required to declare income from interest. In practice, the free movement of capital and banking secrecy have offered scope for tax evasion. Some Member States impose a withholding tax on interest income. However, when in 1989 Germany introduced such a tax at the modest rate of 10%, there was a massive movement of funds into Luxembourg, and collection of the German tax had to be suspended. That same year the Commission proposed the introduction of a common system of withholding tax on interest income, levied at the rate of 15%. This proposal was then withdrawn and replaced by a new one to ensure minimum effective taxation of savings income in the form of interest payments (with a tax rate of 20%). Following lengthy negotiations, a compromise was reached, and Council Directive 2003/48/EC on the taxation of interest income was adopted. It has since been replaced by the more far-reaching Directive 2014/107/EU, which, together with Directive 2011/16/EU, provides for comprehensive exchanges of information between tax authorities.

ROLE OF THE EUROPEAN PARLIAMENT

On tax proposals, Parliament's role is generally confined to the consultation procedure. Its resolutions have broadly supported all Commission proposals in the fields of both company and personal direct taxation, while advocating a widening of their scope.

Parliament works on 'annual tax reports'. The first of these, supported by a workshop, was adopted in February 2012 (2011/2271(INI)). It deals in particular with issues of double taxation. The 2013 report considered the issues of taxation and growth as well as tax coordination (2013/2025(INI)). The 2015 report condemned aggressive tax policy and advocated a common approach in order to tackle tax fraud and tax avoidance more effectively and provide an improved framework for the correct functioning of the single market (2014/2144(INI)).

As a follow-up to the work of the temporary Special Committees on Tax Rulings and Other Measures Similar in Nature or Effect, Parliament adopted two resolutions (TAXE and TAXE 2).

In 2016, following the 'Panama Papers' leak, Parliament established a Committee of Inquiry (PANA committee) to investigate alleged contraventions and maladministration in the application of EU law in relation to money laundering, tax avoidance and tax evasion.

Dražen Rakić
06/2017

THE EUROPEAN UNION AT A GLANCE

The aim of the Fact Sheets is to provide an overview of European integration and of the European Parliament's contribution to that process.

Created in 1979 for Parliament's first direct elections, the Fact Sheets are intended to provide non specialists with a straightforward and concise – but also accurate – **overview of the European Union's institutions and policies,** and of the role that Parliament plays in their development.

The Fact Sheets are grouped into six chapters:

- **How the European Union works,** which addresses the EU's historical development, legal system, institutions and bodies, decision-making procedures and financing;
- **Citizens' Europe,** which describes individual and collective rights;
- **The internal market,** which explains the principles and implementation of the internal market;
- **Economic and Monetary Union,** which outlines the context of EMU and explains the coordination and surveillance of economic policies;
- **Sectoral policies,** which describes how the EU addresses its various internal policies;
- **The EU's external relations,** which covers foreign policy, security and defence, trade, development, human rights and democracy, enlargement and relations beyond the EU's neighbourhood.

Drafted by the Policy Departments and the Economic Governance Support Unit, the Fact Sheets are **reviewed and updated at regular intervals** throughout the year, as soon as Parliament adopts any important positions or policies.

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The Fact Sheets are updated regularly and published on the website of the European Parliament in 23 languages.