AT A GLANCE

European Parliament

EU tax achievements: Looking back (and forward)

EU Member States' public finances have been under considerable strain owing to both the COVID-19 pandemic and the twin energy-cost-of-living crisis. To bolster EU economies in the wake of these challenging times, various initiatives were taken forward at EU level to simplify tax compliance for businesses operating across borders, and to ensure that taxpayers were paying their fair share. As the current Commission's mandate approaches its conclusion, this briefing looks at some notable achievements and anticipates potential future action in the field of taxation.

Accomplishments and ongoing work

Despite facing significant economic challenges, the fiscal stability of EU Member States has demonstrated resilience in recent years. National tax administrations have responded rapidly to constantly changing circumstances and have been quick to install tax benefits for the poorest households or to provide tax relief for struggling businesses. Fortified by a strong economic rebound, tax revenue as a percentage of EU gross domestic product returned to its pre-pandemic average in 2022 (41 %). To support the European economy's rebound, the European Commission put forward a 'package for fair and simple taxation' in July 2020, listing 25 distinct (soft or hard law) initiatives the Commission would undertake in the area of taxation during its mandate. One year later, this was followed up by a communication on 'business taxation for the 21st century', listing a number of additional potential legislative proposals. With these initiatives, the Commission aimed to reduce tax obstacles for businesses in the single market, and help Member States enforce existing tax rules and fight tax fraud and aggressive tax planning.

The key milestone was the 2021 OECD/Inclusive Framework agreement on a **two-pillar solution** to reform international corporate tax rules, supported by nearly 140 countries, including all EU Member States. The subsequent adoption of **the global minimum corporate tax** ('Pillar Two') in the EU has ensured that large multinationals operating in the EU are today subject to a tax burden of at least 15 %. While there has been some delay, a multilateral convention to implement the other half of the global tax deal ('Pillar One', concerning taxing rights on profits made by very large multinationals) will be open for signature soon, with the new rules entering into force in 2025.

Another important achievement was the agreement to broaden the information exchange between tax authorities (**DAC8**): from 2026, tax administrations will have a better overview of the crypto-asset transactions made and proceeds gained by EU customers, thereby reducing the risk of tax evasion. Agreements were also reached on public country-by-country reporting (requiring multinationals to reveal publicly how much corporate tax is paid per EU country they are operating in) and the modernisation of rules for value added tax (VAT) rates (for example, phasing out reduced VAT rates on fossil fuels). Meanwhile, some EU countries undertook measures against aggressive tax planning as part of their national recovery plans under the NextGenerationEU mechanism.

Today's globalised economy also requires close **cooperation with third countries** to achieve EU tax policy objectives. The UK-EU economic partnership agreement, following the UK's withdrawal from the EU, includes a protocol on combating VAT fraud together. The EU's process of listing third countries that fail to comply with international good governance tax standards has served as an incentive for many of these countries to improve their practices.

Meanwhile, the legislative process on some of the European Commission's other tax initiatives is still ongoing, such as the proposals to create a harmonised corporate tax base and to update energy taxation rules (see Table 1). The Belgian presidency of the Council will continue to work on these files and is aiming

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to finalise agreements on both the 'FASTER' proposal – for faster and safer relief of excess withholding taxes – and on the proposal on 'VAT rules for the digital age', in particular before the European elections.

Table 1 – Ongoing initiatives in the Council in the area of taxation (non-exhaustive)

Legislative proposal	Aim	European Parliament (non-binding opinion)
Energy taxation	Align taxation of energy products and electricity with EU Green Deal objectives	Awaiting Committee decision
Unshell	Counter shell companies when they are used for abusive tax purposes	Opinion
VAT in the digital age	Reduce need for multiple VAT registrations, harmonise VAT reporting standards and fight fraud	Opinion
Debt-equity bias reduction allowance (DEBRA)	Reduce debt-equity bias in corporate tax, encourage the re-equitisation of companies and strengthen capital markets union	Opinion
Faster and safer tax excess relief (FASTER)	Simplify, digitalise, accelerate withholding tax relief and strengthen capital markets union	Awaiting Parliament's vote
Business in Europe: Framework for income taxation (BEFIT)	Harmonise corporate tax base, lower business compliance costs and increase tax certainty	Awaiting Committee decision
Head office tax system (HOT)	Lower tax compliance costs of small businesses operating across borders	Awaiting Committee decision
Transfer pricing	Enshrine transfer pricing principles within EU law, increase tax certainty and prevent double taxation	Awaiting Committee decision

What might the future bring?

The European Commission did not put forward a charter on taxpayer's rights – initially planned for 2021. This charter was intended to pinpoint lingering tax barriers within the single market and recommend best practices drawn from across the EU to enhance taxpayers' experiences, addressing issues such as the speed of VAT refunds. Commissioner Paolo Gentiloni envisaged this initiative being taken forward 'at a later point in time'. One key concern has been the tax difficulties faced by **cross-border teleworkers**, and both the European Parliament and the European Economic and Social Committee have called on the Commission to take action in this area.

Given the great number of initiatives taken in the past few years to fight tax avoidance, the Commission is currently assessing 'the effectiveness, efficiency and continued relevance' of the directive on administrative cooperation (through which national tax authorities share an increasing amount of tax-related information with their EU counterparts). The European Parliament and Court of Auditors have already suggested several improvements.

The European Commission has also started preparatory work on potential future legislative initiatives. For example, a **VAT and tourism** package is being developed. This would modernise VAT rules for travel agencies but may also review VAT exemptions in international air and maritime transport in the context of the Green Deal. Additionally, the VAT exemption for financial and insurance services is under evaluation.

Other challenges on the horizon may be the future implementation of Pillar One, as concerns continue to grow over the potential non-participation of the United States. MEPs have called on the EU to come forward with a unilateral measure – a digital levy on digital companies or similar – in case there is a clear lack of progress on Pillar One; this levy could feed into the EU budget.