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DRAFT REPORT

with recommendations to the Commission on fair and simpler taxation supporting the recovery strategy (EP follow-up to the July Commission's Action Plan and its 25 initiatives in the area of VAT, business and individual taxation)
(2020/2254(INL))

Committee on Economic and Monetary Affairs

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(Initiative – Rule 47 of the Rules of Procedure)

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

with recommendations to the Commission on fair and simple taxation supporting the recovery strategy (EP follow-up to the July Commission's Action Plan and its 25 initiatives in the area of VAT, business and individual taxation)
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The European Parliament,

– having regard to Article 225 of the Treaty on the Functioning of the European Union,

– having regard to the Commission Communication of 15 July 2020 on 'An action plan for fair and simple taxation supporting the recovery strategy' (COM(2020)0312),

– having regard to the Commission Communication of 15 July 2020 on 'Tax Good Governance in the EU and beyond' (COM(2020)0313),

– having regard to the Commission Communication of 7 April 2016 entitled 'An action plan on VAT - Towards a single EU VAT area - Time to decide' (COM(2016)0148),

– having regard to the Commission Communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response' (COM(2021)0105),

– having regard to the Commission proposals pending for adoption, in particular on the Common Corporate Tax Base (CCTB) , the Common Consolidated Corporate Tax Base (CCCTB)[1], and the digital taxation package[2], as well as the European Parliament's positions on these proposals,

– having regard to the Commission communication of 15 January 2019 entitled 'Towards a more efficient and democratic decision making in EU tax policy' (COM(2019)0008),

– having regard to the Commission communication of 19 February 2020 entitled 'Shaping Europe's digital future' (COM(2020)0067),

– having regard to the G20/OECD Inclusive Framework (IF) on the Base Erosion and Profit Shifting (BEPS) Action Plan of October 2015,

– having regard to the G20/OECD IF interim report entitled 'Tax Challenges Arising from Digitalisation' adopted in 2018, and its Programme of Work to Develop a

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[1] Proposal of 25 October 2016 for a Council Directive on a Common Corporate Tax Base (CCTB), COM(2016)0685 and of 25 October 2016 on a Common Consolidated Corporate Tax Base (CCCTB), COM(2016)0683.

[2] The package consists of the Commission communication of 21 March 2018 entitled 'Time to establish a modern, fair and efficient taxation standard for the digital economy' (COM(2018)0146), the proposal of 21 March 2018 for a Council directive laying down rules relating to the corporate taxation of a significant digital presence (COM(2018)0147), the proposal of 21 March 2018 for a Council directive on the common system of a digital services tax on revenues resulting from the provision of certain digital services (COM(2018)0148) and the Commission recommendation of 21 March 2018 relating to the corporate taxation of a significant digital presence (C(2018)1650).

Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy adopted in May 2019,

– having regard to the Reports on the Pillar One and Pillar Two Blueprints adopted by the G20/OECD Inclusive Framework on 14 October 2020, as well as the results of an economic analysis and impact assessment carried out by the OECD,

– having regard to the Commission Communication of 18 May 2021 entitled 'Business Taxation for the 21st Century' (COM(2021)0251),

– having regard to the Annual report on Taxation 2021 - Review of taxation policies in the EU Member States, DG TAXUD, 18 May 2021,

– having regard to the International Monetary Fund report entitled 'Taxing Multinationals in Europe', European and Fiscal Affairs Departments, 2021, No. 21/12,

– having regard to the outcomes of the various G7, G8 and G20 summits held on international tax issues,

– having regard to its resolution of 16 December 2015 with recommendations to the Commission on bringing transparency, coordination and convergence to Corporate Tax policies in the Union[3],

– having regard to its resolutions related to TAXE Special Committees, of 25 November 2015 on tax rulings and other measures similar in nature or effect (TAX 1)[4], of 6 July 2016 on tax rulings and other measures similar in nature or effect (TAX 2)[5], and of 26 March 2019 on financial crimes, tax evasion and tax avoidance (TAX 3)[6],

– having regard to its resolution and recommendations of 13 December 2017 following the inquiry into money laundering, tax avoidance and tax evasion (PANA)[7],

– having regard to Rules 47 and 54 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2021),

A. whereas the unprecedented impact and magnitude of the COVID-19 crisis on the economy has led to a decrease in tax revenues and an increase in fiscal expenditures to protect society and the economy, and is leading to a sharp increase in government debt; whereas tax fraud and tax evasion undermines government revenues, as well as the sustainability of public finances and taxation systems; whereas it is paramount to keep taxes low to support the growth of the economy;

B. whereas a swift recovery requires a strong economic and fiscal policy response ensuring, *inter alia*: (i) an effective level playing field for businesses, including less red tape to

[3] OJ C 399, 24.11.2017, p. 74.
[4] OJ C 366, 27.10.2017, p. 51.
[5] OJ C 101, 16.3.2018, p. 79.
[6] OJ C 108, 26.3.2021, p. 8.
[7] OJ C 369, 11.10.2018, p. 132.

promote both domestic trade and trade within the Single Market, supported by a simple and more predictable tax environment; (ii) securing tax revenues for Member States to finance the recovery and reduce debt to GDP and (iii) fair taxation of businesses and citizens, enhancing both trust in society and fair competition;

C. whereas the Commission's Action Plan is part of a wider Union tax strategy in the area of VAT, business and individual taxation; whereas the Action Plan sets out a dual approach combining actions for combating tax fraud and tax evasion and simplifying steps to remove unnecessary obstacles and administrative burdens for taxpayers;

D. whereas there is a need to build more mutual trust and cooperation between the tax authorities of the Member States and share best practices across the Member States;

E. whereas current international corporate tax rules are no longer suitable in the context of digitalisation and globalisation of the economy; whereas developments of digitalisation create a challenge in terms of traceability of economic operations and taxable events;

F. whereas corporate taxation should be guided by the principle of taxing profits where they are generated, a coordinated approach to the corporate taxation system across the Union could further enable the tackling of unfair competition caused by harmful tax practices that distort the functioning of the single market and often lead to misallocation of resources;

G. whereas increased transparency in the area of corporate taxation can improve tax collection and is also necessary to strengthen fair competitiveness in the single market, which will make the work of tax authorities more efficient; whereas the use of technology and digitalisation focused on a more efficient use of the available data can support efficiency and transparency of tax authorities and reduce the costs of compliance and increase the trust of the public;

General considerations on the Commission's action plan for fair and simple taxation

1. Welcomes the Commission's Action Plan and supports its thorough implementation; observes that the majority of the 25 actions are related to VAT, which is appropriate due to the high level of revenue losses in the area of VAT; considers however that an impact assessment should be carried out, before presenting concrete legislative proposals to better apprehend the potential effects on taxpayers and businesses;

2. Believes that the Commission's decision to carry out initiatives aimed at enhancing cooperation among tax authorities and increased harmonisation of procedural rules across the single market is of the highest importance; welcomes the Commission's initiative for the 'EU cooperative compliance programme';

3. Welcomes the Commission's proposal to modernise, simplify and harmonise VAT requirements, using transaction-based 'real time' reporting and e-invoicing; notes that such reporting needs to be taxpayer-friendly while allowing tax administrations to have an overview of the various transactions in real-time, facilitating the prevention and detection of fraud and risky economic operators; considers that reporting requirements and tax forms should converge across the Member States; believes that the use of the data-mining tool Transaction Network Analysis (TNA) represents an available way to

reduce tax fraud and promotes its further development and sharing of best practices among Member States;

4. Recalls that any tax measures, temporary or not, should foster and not hamper the competitiveness of European businesses; stresses that the reporting requirements should not generate higher administrative costs for economic actors, notably for small and medium-sized enterprises (SMEs); notes that to effectively address lost tax revenues, better quality and possible higher quantities of data may be needed, but only data effectively used, and collected from taxpayers only once with utmost security, should be collected; notes that data should aim to simplify various obligations of taxpayers, while artificial intelligence (AI) and various softwares should be used to maximise the effectiveness of the use of data;

Drivers for changes

5. Is of the opinion that better estimates of overall tax losses in the Union are essential for efficient proposals on ways to effectively reduce tax losses;

6. Recalls that tax transparency and certainty based on clear respective rights and duties is the main principle on which to build mutual trust between taxpayers; supports, in that context, the formalisation of the Charter on taxpayer's rights; believes that further development and the identification of gaps in effective European dispute resolution mechanism need to be considered;

7. Notes that the Union decision-making process is not promoting change, as tax policy is a national prerogative and subject to unanimity; regrets that the current situation sometimes leads to an uneven or inconsistent application of tax regulations; calls on the Commission and the Member States to ensure more harmonised and consistent tax rules and their implementation, to protect the functioning of the single market and to assure the principle of "taxing where profit is generated";

8. Takes note of the existing limits on decision making in the Council and calls for exploring all legal options as provided in the Treaties on taxation especially in order to ensure functionality of the single market and preserve Union competitiveness in the global market;

Challenges in the EU VAT tax policy

9. Observes that the current EU VAT system remains too complex and vulnerable to fraud, while generating high compliance costs for economic operators[8]; notes that the different measures to tackle tax fraud are adopted in the Member States; recalls that the modernisation of the VAT system and the shift towards a more coherent VAT system across the Union should be addressed urgently[9];

10. Stresses that tackling the VAT gap and tax fraud should be an urgent priority for the

[8] As per the EPRS' EAVA (September 2021), the VAT gap, including cross-border VAT evasion and fraud, could be estimated at around €120 billion in 2020, page 42.
[9] As per the EPRS' EAVA (September 2021), the estimated added value of the extended cooperation between the Member States plus the full implementation of the OSS could bring a reduction of est. €29 billion of the VAT gap, and a reduction of est. €10 billion in compliance costs for businesses, page 39.

Union and the Member States in the post-COVID-19 economy; expresses its concern about the level of the VAT gap estimated at around EUR 140 billion in 2018, whereof EUR 50 billion is related to cross-border tax evasion and fraud; notes with concern that according to the Commission's assessment, the VAT gap could rise to more than EUR 160 billion due to COVID-19;

Ongoing reforms of the international and Union tax system

11. Highlights that the current global tax environment is outdated, and can only be fully addressed on a global level; considers that a multilateral agreement negotiated OECD/G20 Inclusive Framework on BEPS is a unique opportunity to make international tax architecture more consistent with the development of the economy by further addressing the distortions of fair competition in the market, which was accentuated during the COVID-19 crisis and highlighted problems related to the taxing of large multinational enterprises (MNEs);

12. Welcomes the efforts of the Commission to address the problem at least partially by introducing various initiatives, but stresses the high importance of the Union in contributing to the success of global negotiations towards the ongoing necessary reforms;

13. Notes that the reduction of the estimated gap[10] due to corporate tax avoidance at around EUR 35 billion per year from the previous Commission estimations of EUR 50-70 billion before anti-BEPS measures were introduced and the correlation between an improvement and the legislative efforts on tax avoidance carried out by the Commission; stresses that situations where some firms are still able to reduce their tax bill is undermining fair competition in the single market and often harming the competitiveness of SMEs;

14. Welcomes the two-pillar agreement reached at the G7/G20 levels on the allocation of taxing rights and the application of a minimum effective tax rate of at least 15% on the global profits of MNEs; notes the need for effective implementation; calls on the Commission to make the necessary legislative proposals to implement the agreement into Union law as quickly as possible after the finalisation of the technical work on the OECD approach;

Paving the way for the new Union business taxation agenda

15. Recalls that future Union policy options and political choices in the area of business taxation should be based on tax fairness, efficiency and transparency, leading to fairly shared taxes for all types of multinational companies, while reducing costs of compliance for taxpayers, as well as removing sources of business distortions in the Union single market, trade and investments;

[10] COM(2020) 312 final, page 5. There are other estimations, for example by the European Parliament, with estimated losses from financial crime, tax evasion and tax avoidance amounting to EUR 190 bn. Based on the OECD's comprehensive work in the Base Erosion Profit Shifting report (BEPS), Action 11, global revenue losses before any of the anti-BEPS measures were decided amounted to some USD 100-240 billion or 0.35 per cent of global GDP. The EU Commission estimated that some EUR 50-70 billion was attributable to the EU before the Anti-Tax Avoidance Directives I and II were agreed on by Member States.

16. Supports the rationale of the BEFIT, with the view to design a new and single Union corporate tax rulebook, based on a formulary apportionment and a common tax base of income taxation for businesses, which will be providing clarity and predictability for companies, reflecting the consensus reached in the OECD Pillar 1 and Pillar 2 negotiations;

17. Considers, however, that the BEFIT initiative should be supported by the political process in building political support for change and that the initiative should be accompanied by a thorough impact assessment to shape future proposals, which should contribute to reaching a consensus between Member States;

18. Considers that the new corporate tax agenda should include a mechanism to address the debt-equity bias through an incentive system, helping to support the resilience of companies in adverse economic circumstances in the future;

19. Supports, for the purposes of tax transparency, the collection of regularly updated data on the effective corporate tax rates paid by the Union's largest companies on their generated profits within the Union, such a mapping should be used to assess the efficiency of the tax framework and rules in place;

20. Requests that the Commission submit by 2022/2023 one or more legislative proposals following the recommendations set out in the Annex hereto;

21. Considers that the financial implications of the requested proposal should be covered by appropriate budget allocations;

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22. Instructs its President to forward this resolution and the accompanying recommendations to the Commission and the Council.

ANNEX TO THE MOTION FOR A RESOLUTION: RECOMMENDATIONS AS TO THE CONTENT OF THE PROPOSAL REQUESTED

A. Simplification, costs of compliance reduction for taxpayers

Recommendation A1 - Single EU VAT registration procedure and the Single EU VAT number

The European Parliament calls on the European Commission to move towards the adoption of a Single EU VAT registration procedure and the Single EU VAT number by 2023.

Such a procedure should:

- Reduce the costs of compliance, notably for SMEs operating in the single market, propose an identical process for VAT registration across the Union (respecting different conditions for registration in Member States).

- Registration should be easily accessible and use a harmonised online platform(s), working in the same manner across the Union, in an agreed minimum number of languages, to allow easier use across the Union.

Recommendation A2 - Simpler taxation for and with European Companies (SEs) / SMEs

The European Parliament calls on the European Commission to introduce measures to further reduce costs and complexity of taxation of SMEs and SEs by 2023.

- Several initiatives referred in this report should be proposed by the Commission, which should be followed by concrete proposals in a short period to support SMEs in the post-COVID-19 economy.

- To further support SEs and start-ups, the European Parliament asks the Commission to assess the option of introducing a unique pan-European Income tax regime for SEs and start-ups to minimise their costs associated with tax compliance especially in cases where they operate in more than one member state. The regime would be optional for SEs (e.g. restricted by the turnover) and could be based on the European Company. Tax revenues from the regime would be allocated to the Member States using an agreed formula (e.g. based on the proportion of residents employed).

B. More certainty for taxpayers

Recommendation B1 - Definition of tax residency

The European Parliament calls on the European Commission to bring forward initiatives to ensure a more consistent determination of tax residency within the Single Market by 2022.

- Some taxpayers across the Union are subject to the risk of double taxation, as tax administrations do not have a consensus on a tax residence determination and consequently are subject to double taxation or uncertainty. In light of the COVID-19 crisis and consequential teleworking, further relocation from the place of work was available and the determination of tax residence became further complicated.

- As this can lead to uncertainty and significant costs for taxpayers, the proposal (possibly in the form of soft law) aiming for a consistent approach for the determination of residency among the Member States, should be introduced without delay.

Recommendation B2 - Dispute resolution mechanism for cases where two or more Member States claim tax residency:

The European Parliament calls on the Commission to reflect the experience and identify remaining gaps in the existing Council Directive (EU) 2017/1852 on tax dispute resolution mechanisms in the Union, in order to address the existing conflicts and uncertainties regarding residency for both natural and corporate persons, causing risks of double taxation. The regime set out in the Directive must ensure the time limits for obtaining a decision, which will be legally binding and enforced. The analyses should be done in 2022, and a possible change of Directive presented in 2023.

Recommendation B3 - Charter on taxpayer's rights

The European Parliament calls for the acceleration of publication of existing taxpayers' rights under Union law together with a Recommendation to Member States to facilitate the implementation of taxpayers' rights and to simplify tax obligations by 2022/2023. The European Commission should meanwhile initiate the discussion with Member States regarding the extension of taxpayers' rights, which would result in an increased transparency and certainty for taxpayers, while reducing costs of compliance.

C. <u>Reduction of tax gap and compliance costs</u>

Recommendation C1 - E-invoicing

The European Parliament calls on the European Commission to:

- Set-up a harmonised common standard for e-invoicing across the Union without delay and by 2022 to reduce the cost of the creation of fragmented, different system across the Member States.

- Explore the possibility of a gradual introduction of obligatory e-invoicing across the Union by 2023, focused on significant reduction of costs of compliance, especially for SMEs. Issuing invoices should be administered only via state-operated/certified "system(s)" with full data protection ensured.

- By 2023, examine the possibility that the system will provide a part (or full) tax compliance data/documents for eligible taxpayers, including the responsibility for the compliance of these returns (or parts of them), especially from the point of view of reduction compliance cost and risk for SMEs.

Recommendation C2 - Alternative for the reduction of the VAT Gap

The European Parliament calls on the European Commission, with the view to substantially reducing the VAT gap across the Union, especially in the post-COVID-19 economy, to *propose measures which would significantly reduce the identified VAT gap, especially the gap associated with the exemption on cross-border Union trade. The request can be fulfilled by one or more of the following initiatives by 2022-2023:*

- Relaunch the initiative of the definitive regime as the most natural and efficient way to address tax fraud, costing a significantly large yearly loss;
- Propose gradually but promptly an extension of the existing OSS platform from B2C to B2B, to simplify compliance with VAT obligations and receive data for monitoring and tackling tax fraud[1];
- Design and propose online reporting of data for (at least) cross-border Union trade, preferably by using data from e-invoicing (or from an alternative, but keeping the principle that the data must be provided once), including efficient and highly secure centralised/decentralised data processing for detection of fraud. The data will replace all existing reporting requirements in this area, and cause the overall costs of compliance to be reduced, notably for SMEs.

[1] As per the EPRS' EAVA, the scenario of extended cooperation – exchange of information + OSS will trigger a European Added Value of around €39 billion.