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DRAFT REPORT

on the role of simple tax rules and tax fragmentation in European competitiveness
(2024/2118(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Michalis Hadjipantela

PR_INI

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the role of simple tax rules and tax fragmentation in European competitiveness (2024/2118(INI))

The European Parliament,

– having regard to Article 4 and Articles 63 to 66 of the Treaty on the Functioning of the European Union and the principles of the internal market, free movement of goods, services, capital and people,

– having regard to the Treaty on the Functioning of the European Union, and in particular Articles 113, 114 and 115 thereof,

– having regard to Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States[1] (the Interest and Royalties Directive),

– having regard to Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States[2] (the Parent Subsidiary Directive),

– having regard to Council Directive 2022/2523/EC of 14 December 2022 on ensuring a global minimum level of taxation (15%) for multinational enterprise groups and large-scale domestic groups in the Union[3], which is the European Union's response to international tax coordination,

– having regard to the ongoing developments concerning the two-pillar solution to address the tax challenges arising from the digitalisation of the economy,

– having regard to the OECD/G20 Base Erosion and Profit Shifting Project (BEPS) final reports of October 2015,

– having regard to the reports on the Pillar One and Pillar Two Blueprints adopted by the OECD/G20 Inclusive Framework on 14 October 2020, and to the results of the OECD economic analysis and impact assessment of 12 October 2020 entitled 'Tax Challenges Arising from Digitalisation – Economic Impact Assessment',

– having regard to the OECD/G20 Inclusive Framework on BEPS statement of 8 October 2021 entitled 'Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy',

– having regard to the Pillar Two model rules of the OECD/G20 Inclusive Framework on BEPS of 20 December 2021 for domestic implementation of 15 % global minimum tax,

[1] OJ L 157, 26.6.2003, p. 49.
[2] OJ L 345, 29.12.2011, p. 8.
[3] OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj.

- having regard to United States Public Law 117-169 of 16 August 2022, known as the Inflation Reduction Act,

- having regard to the Commission communication of 15 July 2020 entitled ‘An action plan for fair and simple taxation supporting the recovery strategy’ (COM(2020)0312),

- having regard to the Commission communication of 18 May 2021 entitled ‘Business Taxation for the 21st century’ (COM(2021)0251),

- having regard to the Commission proposal of 22 December 2021 for a Council directive on ensuring a global minimum level of taxation for multinational groups in the Union (COM(2021)0823), as well as to Parliament’s position on this proposal[4],

- having regard to the Commission study of January 2022 entitled ‘Tax compliance costs for SMEs – An update and a complement: final report’,

- having regard to the Commission proposal of 11 May 2022 for a Council directive on laying down rules on a debt-equity bias reduction allowance and on limiting the deductibility of interest for corporate income tax purposes (COM(2022)0216),

- having regard to the Commission proposal of 8 December 2022 amending Directive 2006/112/EC as regards VAT rules in the Digital Age (COM(2022)0701), Commission proposal for a Council Regulation amending Regulation (EU) No 904/2010 as regards the VAT administrative cooperation arrangements needed for the digital age (COM(2022)0703), Commission proposal for a Council directive amending Directive 2006/112/EC as regards the electronic value added tax exemption certificate (COM(2024)0278) and the Council agreement on VAT in the digital age package of 5 November 2024,

- having regard to Council Directive 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes[5] (FASTER),

- having regard to the Commission proposal of 12 September 2023 for a Council directive on Business in Europe: Framework for Income Taxation (BEFIT) (COM(2023)0532),

- having regard to the Commission proposal of 12 September 2023 for a Council directive establishing a Head Office Tax system for micro, small and medium sized enterprises, and amending Directive 2011/16/EU (COM(2023)0528),

- having regard to the Commission proposal of 12 September 2023 for a Council directive on transfer pricing (COM(2023)0529),

- having regard to the Council conclusions of 17 and 18 April 2024 on a new European competitiveness deal,

- having regard to the Council conclusions of 24 May 2024 on a Single Market for the benefit of all,

[4] OJ C 479, 16.12.2022, p. 89.
[5] OJ L, 2025/50, 10.1.2025, ELI: http://data.europa.eu/eli/dir/2025/50/oj.

– having regard to the European Council's Budapest Declaration of 8 November 2024 on the New European Competitiveness Deal,

– having regard to the Council conclusions of 11 March 2025 on a tax decluttering and simplification agenda which contributes to the EU's competitiveness,

– having regard to the European Council conclusions of 20 March 2025 on competitiveness, with a focus on simplification and the reduction of regulatory and administrative burdens,

– having regard to its resolution of 16 February 2022 on the implementation of the Sixth VAT Directive: what is the missing part to reduce the EU VAT gap?[6],

– having regard to its resolution of 7 October 2021 on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group)[7],

– having regard to its resolution of 15 February 2022 on the impact of national tax reforms on the EU economy[8],

– having regard to its resolution of 10 March 2022 on a European Withholding Tax framework[9], calling for a standardised withholding tax framework,

– having regard to its resolution of 4 October 2022 on the impact of new technologies on taxation: crypto and blockchain[10],

– having regard to its resolution of 10 March 2022 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)[11],

– having regard to its resolution of 4 May 2022 on the follow-up to the Conference on the Future of Europe[12],

– having regard to its resolution of 15 June 2023 on lessons learnt from the Pandora Papers and other revelations[13], also calling for improving reporting and information sharing,

– having regard to its resolution of 12 December 2023 on further reform of corporate taxation rules[14],

– having regard to the report of 9 May 2022 on the final outcome of the Conference on the Future of Europe,

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[6] OJ C 342, 6.9.2022, p. 88.
[7] OJ C 132, 24.3.2022, p. 167.
[8] OJ C 342, 6.9.2022, p. 14.
[9] OJ C 347, 9.9.2022, p. 172.
[10] OJ C 132, 14.4.2023, p. 15.
[11] OJ C 347, 9.9.2022, p. 211.
[12] Texts adopted, P9_TA(2022)0141.
[13] OJ C, C/2024/492, 23.1.2024, ELI: http://data.europa.eu/eli/C/2024/492/oj.
[14] OJ C 2024/4165, 2.8.2024, ELI: http://data.europa.eu/eli/C/2024/4165/oj.

– having regard to the Enrico Letta report of April 2024 entitled 'Much more than a Market',

– having regard to the Mario Draghi report of 9 September 2024 entitled 'The future of European competitiveness',

– having regard to Rule 55 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A10-0000/2025),

A. whereas EU Member States collected EUR 6,712 billion in taxes in 2023 (including compulsory actual social contributions), which represents 4.7 % more than in 2022[15];

B. whereas in 2023, the tax burden (i.e. overall tax revenues as a share of GDP) in the EU stood at 39.0 % of GDP, a slight decrease as compared with 2022[16];

C. whereas in 2023 the VAT revenue-to-GDP ratio amounted to 7.1 % of EU GDP and 18.3 % of total government revenue[17];

D. whereas the VAT compliance gap amounted to EUR 89.3 billion in 2022 according to the Commission[18];

E. whereas Member States differ in their reliance on taxation, in the taxes they levy to collect these revenues and how they have changed their tax mix over the past decade[19];

F. whereas Draghi's comprehensive report on the European Union's economic situation warns about the EU's declining productivity and competitiveness, and that, without decisive action, the EU faces a 'slow and agonising decline', also underscoring the necessity for coordinated policies, reducing bureaucratic hurdles to enhance competitiveness and identifying and eliminating unnecessary rules, also in the area of taxation;

Taxation and the business environment

1. Emphasises that simple and predictable tax rules should make it easier for taxpayers to pay their taxes and for governments to administer and collect revenue; highlights the need to create a compliance-friendly and business-supportive European Union, where productive sectors can compete and thrive and workers can earn a good income;

2. Stresses that the EU tax system should uphold the principles of subsidiarity and proportionality, and that Member States retain the right to tailor their tax systems to their specific national needs, while adhering to common standards and ensuring the efficient use of revenues;

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[15] European Commission, Data on Taxation Trends, last updated on 10 March 2025.
[16] European Commission, Data on Taxation Trends, last updated on 10 March 2025.
[17] European Commission, Data on Taxation Trends, last updated on 10 March 2025.
[18] European Commission, *VAT gap in the EU – 2024 report*, 2024.
[19] European commission: Directorate-General for Taxation and Customs Union, Annual report on taxation 2024 – Review of taxation policies in the European Union, 2024.

3. Notes that European companies, particularly small and medium-sized enterprises (SMEs), are key drivers of economic growth and job creation across the continent; recalls that SMEs face significant fiscal challenges on account of complex tax regulations and fragmented tax systems, which impose high administrative burdens and compliance costs, hindering their growth and innovation; urges the Commission to explore solutions that simplify tax procedures and reduce compliance costs;

Competitiveness and economic growth

4. Welcomes the European Council conclusions on the New European Competitiveness Deal; regrets, in this regard, the omission of the field of taxation as a key factor in improving Europe's competitiveness; calls for better tax cooperation within the EU, reducing fragmentation and complexity while fostering greater cooperation and trust among Member States to enhance the competitiveness of the European economy;

5. Welcomes the European Council conclusions on tax decluttering and simplification; stresses that future EU initiatives on taxation should focus on administrative simplification, elimination (where relevant) of overlapping tax rules, increasing clarity and streamlining the application of tax rules;

Tax simplification and digitalisation

6. Recalls the Commission's priority to ensure business simplification across all policies, including taxation, with the goal of reducing reporting requirements by 25 % (and for SMEs by at least 35 %); calls, in this respect, on the Commission to systematically conduct ex ante impact assessments of all new tax-related legislative proposals, as well as a competitiveness check on current measures to quantify the expected reduction in administrative burdens and ensure that new rules align with the EU's economic growth objectives;

7. Recalls that simple, stable and predictable tax rules are essential for a competitive economy; calls on the Commission to guide all the Member States towards a simplified tax system to reduce the administrative burden for companies; acknowledges that tax certainty, simplifying refund procedures and deductions are key solutions to reduce the administrative burden, especially for SMEs;

8. Underlines the potential of digitalisation, especially artificial intelligence, to reduce administrative burdens and compliance costs for companies, particularly SMEs; urges the Commission and the Member States to promote the digitalisation and simplification of tax administration;

9. Calls on the Commission to assess and simplify the current VAT framework, to reduce administrative burdens, enhance competitiveness and reduce the gap between expected revenue and the amount actually collected (VAT gap);

10. Reiterates Parliament's position on HOT, DEBRA and FASTER; takes note of the ongoing discussions on the BEFIT proposal;

OECD Pillars 1 and 2 and international taxation

11. Reiterates the EU’s commitment to the implementation of the OECD Pillar II agreement, while taking into account the current situation regarding Pillar II rules, including the recent Executive Order issued by the US President on 20 January 2025 declaring that the OECD Global Tax Deal has no force and effect in the United States; urges the Commission to inform Parliament of contingency plans and take prompt, targeted action to protect EU interests and prevent retaliatory measures;

12. Stresses that Pillar 2 should ensure a global minimum level of taxation for multinational and large-scale domestic groups in the Union; welcomes its implementation into national law; calls for legal clarity in its implementation and expects the process of negotiating and publishing the administrative guidance to come to an end soon and provide companies falling under the scope of Pillar 2 with the necessary certainty; expects further developments with regard to the OECD permanent safe harbour;

13. Notes that over the past few years, the European Union has pursued an ambitious agenda to combat tax evasion and tax avoidance and has introduced a number of new provisions and reporting requirements (e.g. via ATAD); takes note of the Commission’s announcement that it will evaluate the Anti-Tax Avoidance Directive (ATAD) in light of Pillar II and present a comprehensive report on the measures in Q3 2025;

14. Acknowledges the publication by the OECD of the Multilateral Convention in October 2023, laying down the technical rules to implement Amount A of Pillar 1 and the ongoing negotiations;

Tax barriers in the single market

15. Notes that the fragmented EU tax landscape creates complexity, uncertainty and high compliance costs for EU businesses, especially SMEs; underlines the need to address tax obstacles to cross-border investment and to increase equity in business financing; recalls, in this regard, the Draghi report, highlighting the fact that EU citizens should be able to invest in other Member States without complex taxation procedures, effectively resulting in double taxation;

Combating tax evasion and aggressive tax planning

16. Commits to fighting aggressive tax planning for a fair Europe, taking into account the specific situation and interests of SMEs, and of lower and middle class households; recognises the substantial revenue implications of aggressive tax planning, which tilts the playing field for actors in the economy and threatens to undermine tax morale; urges the Commission to improve cooperation between Member States in addressing aggressive tax planning, particularly through enhanced information exchange, coordinated audits and improved enforcement;

17. Notes the role of the Directive on Administrative Cooperation (DAC) in reducing tax evasion and increasing transparency, while also highlighting the complexity and administrative burden, especially under DAC 6;

18. Calls for enhanced collaboration between the European Public Prosecutor’s Office and Eurofisc to strengthen intelligence-sharing, coordinated enforcement efforts and cross-border investigations in the fight against VAT fraud and other forms of tax evasion;

Cross-border taxation and labour mobility

19. Calls on the Commission to present a study on how to simplify tax rules and address tax fragmentation for cross-border workers and the self-employed to boost competitiveness; notes that divergent national tax systems create administrative burdens, legal uncertainty and double taxation, hindering labour mobility and cross-border entrepreneurship;

Taxation and innovation

20. Calls on the Commission to conduct further studies on the effects of tax incentives for research and development (R&D) and innovation in enhancing European competitiveness on the global stage in line with the proposals of the Draghi report; calls for strengthened cooperation and trust between Member States, promoting a level playing field for e-commerce, digital services and other rapidly growing sectors;

21. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

Your Rapporteur takes the view that in the current economic landscape, we must strive for simplification and reduce regulatory and administrative burden.

The European Union’s tax landscape is at a critical juncture, requiring a balance between fostering economic growth, enhancing competitiveness, and ensuring tax fairness. The evolving economic environment, marked by digitalisation and globalisation, requires coordinated tax policies to address cross-border challenges while reducing administrative burdens for businesses, particularly small and medium-sized enterprises (SMEs).

The principles enshrined in Article 4 of the Treaty on European Union and the Treaties on the Functioning of the European Union underscore the importance of the internal market, the free movement of goods, services, capital, and people. A predictable tax framework is fundamental to supporting the internal market and ensuring that businesses can operate efficiently across borders without undue complexity. While the EU has made progress in tackling tax evasion and avoidance, further measures are needed to reduce bureaucratic hurdles and create a more business-friendly environment, as highlighted in the Draghi report on “The Future of European Competitiveness”.

Tax simplification and digitalisation are key to reducing compliance costs and improving efficiency. The Commission’s commitment to cutting reporting requirements by 25 % (and at least 35 % for SMEs) is a step in the right direction. Ex-ante impact assessments for new tax-related proposals and competitiveness checks on existing measures will help align tax policies with broader economic goals.

Digitalising tax administration holds great potential for reducing administrative burdens. Leveraging artificial intelligence (AI) and digital tools can streamline compliance processes, making it easier for companies, especially SMEs, to navigate complex tax regulations.

Strengthened cooperation between Member States is crucial for tackling tax evasion and aggressive tax planning. Improved information exchange, coordinated audits, and enhanced enforcement mechanisms can strengthen the fight against tax abuse.

In conclusion, the EU’s tax agenda must prioritise simplification, digitalisation, and cooperation to create a fairer and more competitive tax environment. By reducing fragmentation and complexity, enhancing digital tools, and embracing coordinated policies, the EU can lay the groundwork for sustainable growth and prosperity in the years to come.

ANNEX: ENTITIES OR PERSONS FROM WHOM THE RAPPORTEUR HAS RECEIVED INPUT

Pursuant to Article 8 of Annex I to the Rules of Procedure, the rapporteur declares that he received input from the following entities or persons in the preparation of the draft report:

Entity and/or person
DG TAXUD, European Commission
European Banking Federation
BusinessEurope
Tax Foundation

The list above is drawn up under the exclusive responsibility of the rapporteur.

Where natural persons are identified in the list by their name, by their function or by both, the rapporteur declares that he has submitted to the natural persons concerned the European Parliament's Data Protection Notice No 484 (https://www.europarl.europa.eu/data-protect/index.do), which sets out the conditions applicable to the processing of their personal data and the rights linked to that processing.