P9_TA(2022)0023

Impact of national tax reforms on the EU economy

European Parliament resolution of 15 February 2022 on the impact of national tax reforms on the EU economy (2021/2074(INI))

The European Parliament,

– having regard to Articles 110-113 of the Treaty on the Functioning of the European Union (TFEU) related to the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation,

– having regard to Articles 114-118 TFEU, which covers taxes that have an indirect effect on the establishment of the single market,

– having regard to the Commission’s Annual Report on Taxation 2021 – Review of taxation policies in the EU Member States,

– 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 24 September 2020 on a Capital Markets Union for people and businesses-new action plan (COM(2020)0590),

– having regard to the Commission’s country-specific recommendations published in the framework of the European Semester and its assessments of the recovery and resilience plans submitted by the Member States as part of the Recovery and Resilience Facility,


– having regard to the conclusions of the Economic and Financial Affairs Council Meeting on 1 December 1997 concerning taxation policy - Resolution of the Council and the Representatives of the Governments of the Member States, meeting within the
Council of 1 December 1997 on a code of conduct for business taxation - Taxation of saving\(^1\),

- having regard to the Commission report of 29 September 2015 entitled ‘Tax reforms in EU Member States 2015 - Tax policy challenges for economic growth and fiscal sustainability’,

- having regard to the overview of the preferential tax regimes examined by the Code of Conduct Group (Business Taxation) since its creation in March 1998,


- having regard to the two-pillar solution to address the tax challenges arising from the digitalisation of the economy agreed on by the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting,

- having regard to the OECD report of 19 May 2020 entitled ‘Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience’,

- having regard to the policy paper of 25 May 2021 by the International Monetary Fund entitled ‘Taxing Multinationals in Europe’,

- having regard to its own-initiative report on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group),

- 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)\(^2\),

- having regard to its resolution of 16 September 2021 on the implementation of the EU requirements for exchange of tax information: progress, lessons learnt and obstacles to overcome\(^3\),

- having regard to its resolution of 15 January 2019 on gender equality and taxation policies in the EU\(^4\),

- having regard to its resolution of 21 October 2021 on the Pandora Papers: implications for the efforts to combat money laundering, tax evasion and tax avoidance\(^5\),

- having regard to the report by the European Tax Observatory entitled ‘New Forms of Tax Competition in the European Union: an Empirical Investigation’ published in November 2021,

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\(^2\) Texts adopted, P9_TA(2021)0416.

\(^3\) Texts adopted, P9_TA(2021)0392.

\(^4\) OJ C 411, 27.11.2020, p. 38.

\(^5\) Texts adopted, P9_TA(2021)0438.

having regard to Rule 54 of its Rules of Procedure,

having regard to the report of the Committee on Economic and Monetary Affairs (A9-0348/2021),

A. whereas the issue of harmful tax practices was debated, and reforms proposed, in Parliament’s resolution of 7 October 2021 on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group); whereas the short-term effects of the COVID-19 pandemic and the long-term structural transformation as a result of demographic trends, digitalisation and the transition towards a carbon neutral economic model have impacted Member States’ choices regarding the design of future tax policies;

B. whereas although tax policy largely remains a responsibility of the Member States, the single market requires harmonisation and coordination in setting tax policy in order to further single market integration and prevent tax base erosion; whereas national measures can impact the tax collection of other Member States and can have a distorting effect on both fair competition and investments;

C. whereas tax policy fragmentation creates various obstacles for citizens and companies in the single market, particularly small and medium-sized enterprises (SMEs), including legal uncertainty, red tape, the risk of double taxation and difficulties claiming tax refunds; whereas these obstacles discourage cross-border economic activity and can distort the single market; whereas policy fragmentation equally creates risks for tax authorities such as double non-taxation and arbitrage (such as tax planning and aggressive tax avoidance practices); whereas Member States continue to lose tax revenue to harmful tax practices because of loopholes between Member States’ legislation, or between Member States and third countries, and estimates of revenue lost as a result of corporate tax avoidance range from EUR 36-37 billion to EUR 160-190 billion per year; whereas policy fragmentations increase the cost of enforcement for tax authorities;

D. whereas within the EU’s social market economy, adequate tax levels and simple and clear tax laws should aim at being as least distortive as possible; whereas sound tax policies should support the fulfilment of the policy objectives outlined in Article 3 of the Treaty on European Union leading to fairer and more sustainable societies, and improving the competitiveness of the EU and its Member States; whereas the economic recovery and the challenges associated with the climate crisis, the ecological transition and the digitalisation of the economy involve profound changes and a re-evaluation of the current taxation policies; whereas fiscal measures should not hinder private initiatives that generate economic growth, reactivate countries’ economies and promote job creation in the EU;

¹ OJ L 64, 11.3.2011, p. 1.
E. whereas efficient tax systems are transparent, easy to comply with and generate consistent tax revenue; whereas growth-oriented tax reforms shift the tax burden towards consumption and property taxes and aim to broaden the tax base;

F. whereas the rationale for national tax policy reforms differs from case to case reflecting the structural characteristics of the economies of the Member States and can encompass motives such as making taxation more reliable and certain, enabling economic growth, increasing revenue, improving distribution, setting behavioural incentives and keeping up with structural changes in the economy;

G. whereas the overall level of taxation (understood as taxes and compulsory social contributions) differs considerably between Member States, as demonstrated by the fact that the tax-to-GDP ratio ranged from 22,1 % in Ireland to 46,1 % in Denmark in 2019; whereas on aggregate, the tax burden in the EU (40,1 %) is higher than some other advanced economies (the OECD average was 34,3 % in 2018); whereas the weighted average statutory corporate income tax rate in OECD countries declined from 46,52 % in 1980 to 25,85 % in 2020, representing a 44 % reduction in the past 40 years;

H. whereas in total, the composition of the tax mix in the EU remained broadly stable in the 2004-2019 period, while the overall level of tax revenue slightly increased; whereas the composition of the tax mix (relative shares of labour, consumption, capital, environmental and other taxes) varies significantly in the EU, with some Member States having a more growth-friendly tax mix than others;

I. whereas strong tax competition in the EU appears to have been a major driving force behind the steep decline in corporate income tax rates that has brought the average European corporate income tax rate below the average rate in OECD countries;

J. whereas during the pandemic, many countries resorted to tax reforms in order to support the economy and only a subset of these measures were temporary; whereas these tax reforms encompassed immediate relief measures for businesses and households such as payment referrals, enhanced loss carry-forwards and accelerated tax refunds, as well as recovery-oriented stimulus measures;

K. whereas the OECD/G20 Inclusive Framework on base erosion and profit shifting agreed on a two-pillar reform of the international tax system to address the challenges arising from the digitalisation of the economy, including a minimum effective corporate tax rate of 15 %;

General remarks

1. Recalls that Member States are free to decide on their own economic policies and in particular their own tax policies within the boundaries of the EU treaties and insofar as EU law is transposed and properly enforced, although this could lead to policy fragmentation and an unequal playing field in the EU; recalls that this allows for fair competition and limits distortions of the EU single market;

2. Observes that the single market, with its free movement of factors of production and close economic relations with non-EU neighbours, has generated large trade, investment and financial flows among Member States; notes that this deep interdependency has
made each country’s tax base and rate sensitive to that of other countries, magnifying corporate income tax spillovers in particular;

**Impact on SMEs**

3. Notes that the estimated tax compliance costs for large multinational companies (MNEs) amount to about 2% of taxes paid, while for SMEs the estimate is about 30% of taxes paid; recalls that European companies, in particular SMEs, are the main enhancers of economic growth and job creation; recalls that some Member States have developed schemes that would tax profits made in an international context at a lower rate than the national nominal rate, thus putting SMEs at a competitive disadvantage\(^1\); notes further that empirical evidence suggests that MNEs’ profits tend to be taxed less than the profits of domestic peers, reflecting profit shifting from high- to low-tax affiliates;

4. Highlights that differences in national tax regimes can present obstacles to SMEs trying to operate across borders; stresses that compared to multinational enterprises, SMEs have fewer resources to spend on tax compliance and tax optimisation; points out that the share of expenditure used for tax compliance purposes is higher for SMEs than for multinational enterprises;

5. Notes that tax base harmonisation such as the common corporate tax base or the ‘Business in Europe: Framework for Income Taxation’ (BEFIT) could reduce the cost of tax compliance for SMEs that operate in more than one Member State; welcomes, therefore, the Commission’s communication on business taxation for the 21st century which states that ‘the lack of a common corporate tax system in the Single Market acts as a drag on competitiveness [...] and creates a competitive disadvantage compared to third country markets’; reiterates that taxing profits in the country where the economic activities take place will allow governments to offer a level playing field for their SMEs; highlights the need to tax corporations using a fair and effective formula for the allocation of taxing rights between countries that takes into account factors such as the workforce and the existence of tangible assets; notes that the publication of the Commission's BEFIT proposal is only expected in 2023; invites the Commission to speed up the adoption process and calls on the Member States to swiftly agree on an ambitious proposal for a European corporate tax rulebook;

6. Notes that Parliament, in dialogue with experts, national parliaments and citizens, will contribute to developing guiding principles ahead of the BEFIT proposal by the Commission in 2023;

7. Notes that many Member States as well as the EU have introduced dedicated regimes that favour SMEs, such as special VAT rules to offset the higher effective tax rates and higher tax compliance costs for SMEs; stresses that such special treatment, if utilised extensively, while generally positive, could risk introducing further distortions and further possibilities of aggressive tax planning, and could further increase the overall complexity of the system; calls on the Member States to design tax benefits for SMEs in

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\(^1\) Commission press release of 16 September 2019 entitled ‘State aid: Commission opens in-depth investigation into individual “excess profit” tax rulings granted by Belgium to 39 multinational companies’.
a way that is consistent with the overall tax regime and does not encourage SMEs to stay small;

8. Notes that SMEs are often less able to absorb or finance losses than larger companies because of more limited cash flows; welcomes, in this regard, the Commission recommendation of 18 May 2021 on the tax treatment of losses during the COVID-19 crisis\(^1\) and calls on the Members States to take these recommendations into consideration;

**Harmonisation and coordination of tax policy**

9. Highlights that the fragmentation of national tax policies can have a distortive effect on the EU single market and can be harmful for the EU economy; welcomes the fact that the EU has developed coordination mechanisms such as peer review procedures within the Code of Conduct Group (CoC) and country-specific recommendations in the context of the European Semester; believes that both of these mechanisms need to be further improved; underlines that within the CoC, Member States re-examine, amend or abolish their existing tax measures that constitute harmful tax competition, and refrain from introducing new ones in the future; recalls, in this regard, Parliament’s position of October 2021 calling for the reform of the criteria, scope and governance of the CoC to ensure fair taxation within the EU;

10. Points out that the Commission recommended to six Member States that they curb aggressive tax planning as part of the 2020 country-specific recommendations (CSRs); recognises the positive impact of the CSRs in fostering necessary tax reforms in the Member States that received recommendations on aggressive tax planning while deploring that some Member States have yet to address the CSRs on aggressive tax planning;


12. Highlights that since 2011, the Directive on Administrative Cooperation (DAC) has laid down the rules for cooperation between Member States’ tax authorities with the aim of ensuring the proper functioning of the single market; welcomes the fact that since 2011, the scope of the DAC has been continuously widened to new domains in order to curb tax fraud and tax avoidance and that considerable progress has been made in the past decades; recalls Parliament’s implementation report adopted in September 2021 which identifies shortcomings in the effective implementation of the DAC by the Member States and highlights the need to strengthen the exchange of information between national tax authorities;

13. Notes the limits of the current decision-making process in the Council in responding to the legislative needs to foster coordination among Member States and fight harmful tax practices; call for all possibilities offered by the TFEU to be explored; recalls that the

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\(^1\) OJ L 179, 20.5.2021, p. 10.

\(^2\) OJ L 57, 18.2.2021, p. 17.
procedure laid down in Article 116 TFEU can be applied when harmful tax practices are distorting competition in the single market;

14. Highlights that in order to maximise impact, the ideal level for tax policy coordination is on the international stage through the G20/OECD; stresses nevertheless that developing countries should be fully included in the negotiation process; notes that EU tax proposals based on international agreements have historically been more likely to be adopted by the Council;

15. Recognises, however, that international negotiations in the field of taxation sometimes face difficulties in reaching a consensus and are therefore slow to address the shortcomings of the international tax system; recommends in such cases that the EU consider leading by example without prejudice to international negotiations;

16. Welcomes the historic agreement reached within the OECD/G20 Inclusive Framework on the reform of the international tax system based on the two-pillar solution with the aim of ensuring a fairer distribution of profits and taxing rights among countries with respect to the largest and most profitable multinational companies which suggests that multinational enterprises be subject to a 15% effective tax rate; urges the Commission and the Member States to work together and ensure the transposition into EU law of the OECD/G20 Inclusive Framework agreement on the two pillars as announced by the President of the Commission in her 2021 State of the Union Letter of Intent; calls on the Council to swiftly adopt such proposals to make it effective from 2023; invites the Member States to consider advocating for similar international agreements for other types of suitable taxes;

**Recommendations and areas for reform**

17. Points out that in areas of high importance for the functioning of the single market, such as taxation and the capital markets union, more harmonisation is warranted either through better Member State coordination or EU action;

18. Stresses that Member States still use various criteria to determine tax residence status, creating a risk of double taxation or double non-taxation; recalls, in this regard, the initiatives outlined in the Commission’s July 2020 action plan aiming to put forward a legislative proposal by 2022 or 2023 to clarify where taxpayers active across borders in the EU are to be considered residents for tax purposes; looks forward to this proposal which should aim at ensuring a more consistent determination of tax residence within the single market;

19. Notes that digitalisation and a heavy reliance on intangible assets which pose challenges to the current tax system warrant a high degree of policy coordination and harmonisation in order to establish a level playing field and to ensure that digital companies are fairly contributing to the societies where they do business; notes the fact that some Member States have pressed ahead with the introduction of national digital taxes despite ongoing negotiations at EU and OECD level; notes that this has had a positive impact on the international debate; stresses that these national measures should be phased out following the implementation of an effective international solution;

20. Recalls that the EU agreed to implement a new own resource based on a digital levy as a way to finance the NextGenerationEU recovery instrument and calls on the
Commission to come forward with alternative proposals that will be compatible with international commitments;

21. Deplores the fact that differences in withholding tax and withholding tax reimbursement procedures remain a considerable obstacle to further capital markets union integration; welcomes the Commission’s announcement to propose a legislative initiative for introducing a common, standardised, EU-wide system for withholding tax relief at source;

22. Deplores the debt equity bias in corporate taxation that allows for generous tax deductions on interest payments, while equity financing costs cannot be deducted in a similar manner; highlights the structural disadvantage facing companies that rely on equity financing, in particular if they are young and small companies with poor access to credit; notes that the debt equity bias might incentivise companies to take on too much debt;

23. Notes that debt equity bias varies considerably between the Member States; notes the fact that some Member States have introduced allowances for corporate equity to address this issue; recalls that some of these allowances for corporate equity have been exploited as tax loopholes, allowing multinational enterprises to artificially deduct national interests; stresses that a common European approach would be preferable in order to avoid distortions in the single market;

24. Recalls that such bias can be tackled by either allowing for new deduction of costs related to equity financing or by reducing the interest deduction possibilities; recalls that Parliament proposed limiting the deduction of exceeding borrowing costs to up to 20% of the taxpayer’s earnings before interest, tax, depreciation and amortisation while the Council adopted a higher threshold of up to 30%; recalls that, according to the OECD, a ratio of 30% may be too high to effectively prevent base erosion and profit shifting;

25. Looks forward to the Commission’s proposal for a debt equity bias reduction allowance; urges the Commission to perform a thorough impact assessment and incorporate effective anti-avoidance provisions to avoid any allowance on equity being used as a new tool for base erosion;

26. Notes that the effective marginal tax rate (EMTR) can be a decisive factor for corporations making investment decisions, together with the quality of infrastructure, the availability of an educated, healthy workforce, and national stability; notes that there is considerable variation in the EMTR across Member States; invites the Commission to look into whether some Member States are distorting competition by artificially lowering their EMTR, e.g. through accelerated depreciation schedules or by adjusting the tax deductibility of certain items, and to communicate its results to Parliament;

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1 European Parliament position of 8 June 2016 on the proposal for a Council directive laying down rules against tax avoidance practices that directly affect the functioning of the internal market (OJ C 86, 6.3.2018, p. 176).


27. Notes that while tax rulings can establish legal clarity for companies, they also carry the potential for abuse through the granting of preferential tax treatment; points out, however, that a simple tax system is the preferred way to establish legal certainty;

28. Welcomes the fact that the Commission is willing to apply its constitutional role to fight the distortion of competition by making use of competition law; deplores that several recent Commission decisions in high-profile competition cases in the area of taxation have been annulled by national courts and the Court of Justice of the European Union;

29. Highlights that tax incentives applied in a fiscally responsible manner for private research and development (e.g. via tax credits, enhanced allowances or adjusted depreciation schedules) can help lift an economy’s overall spending towards research and development, which often comes with positive externalities; is concerned, however, that certain types of tax incentives such as patent box/intellectual property box regimes do little to increase research and development spending and may actually distort the single market by inciting profit shifting and aggressive tax planning; notes that tax incentives should aim to attract investments in the real economy and therefore be expenditure-based instead of profit-based in order to better target the input of innovation; invites the Commission to propose guidelines on tax incentives that are not distortive for the single market, notably by favouring incentives that are cost-based, limited in time, regularly assessed, and repealed in the event that they have no positive impact, are limited in geographical scope and are partial rather than full exemptions;

30. Stresses that further harmonisation regarding tax incentives for research and development spending may be warranted; notes that that this was part of the Commission’s initial common corporate tax base proposal; deplores the fact that this topic was not addressed in the recent communication on business taxation for the 21st century;

31. Notes that an important part of budgetary capacity is channelled through tax incentives in the form of exemptions, deductions, credits, deferrals and reduced tax rates; calls on the Commission to provide an assessment of all ineffective tax incentives and subsidies, in particular those harmful to the environment and leading to negative economic distortions; calls on the Commission to establish a screening framework for tax incentives in the EU and to oblige Member States to publish the fiscal costs of tax incentives; calls on the Member States to perform annual, detailed and public cost-benefit analyses of each tax provision; is of the opinion that tax certainty would be reinforced if Member States had a common understanding of which tax incentives are not distortive; calls on the Commission to issue guidelines on tax incentives that are not distortive for the single market;

32. Calls on the Member States to compromise on a strong, comprehensible and ambitious reform on indirect taxation, mainly on VAT; stresses that reducing complexity and bureaucracy and properly addressing tax fraud and evasion on VAT is essential to preserve the integrity of the single market;

33. Calls on the Member States to continue reforming tax authorities, to speed up digitalisation and to start implementing strategic approaches to support SMEs with tax compliance as well as to identify opportunities for burden reductions; calls on the Member States to perform sound and robust reforms on the complexity of tax systems, with the aim of reducing bureaucracy, the administrative burden and compliance costs;
recalls that there is high added value on European cooperation on this matter and on the exchange of best practices between tax authorities;

34. Calls on the Member States to make better use of the EU fiscalis programme in order to improve cooperation between tax authorities in their reform efforts; calls on the Commission, in this regard, to establish an Erasmus exchange programme for tax officers in order to encourage the take-up of best practices;

35. Asks the Commission to follow and monitor new national tax reforms or measures implemented as a result of the COVID-19 pandemic to sustain the economy, in particular measures that are not temporary; calls on the Member States to perform reforms on tax systems and to take advantage of the opportunities offered by European instruments that aim to support the economic recovery; stresses that these reforms must respect the European fiscal framework; recalls that these reforms should be performed in full respect of national competences on tax matters, but stresses that strong coordination between Member States would result in significant added value;

36. Supports high standards of respect for taxpayer rights, especially on privacy and data protection, and in particular for individuals, in any political and legislative process regarding taxation;

37. Notes that most national procurement procedures in Member States use lowest price as the only award criterion for public contracts; recalls the Council’s call on the Commission to consider how to tackle distortive effects resulting from the participation of bidders with activities in jurisdictions included on the EU list of non-cooperative jurisdictions for tax purposes; invites the Commission to revisit its public procurement strategy in this regard;

EU taxation scoreboard

38. Takes note of the Commission’s ongoing work on an EU tax scoreboard; recommends the use of economic indicators that allow distortions in the single market, such as the levels of FDI, royalties and interests payments, to be identified; highlights that such a scoreboard must contribute to the fight against harmful tax competition; calls on the Commission to duly take into account the considerable public revenue losses imposed by national tax policies that are facilitating tax avoidance; understands that this tax scoreboard must be built as an instrument to help Member States perform sound and robust reforms on tax matters; warns against the use of this scoreboard to shame specific Member States, but believes it can foster debate on needed reforms; encourages strong cooperation with current European platforms in the building of this scoreboard; understands that this new instrument could be useful for the European Semester process and in particular for the country specific recommendations;

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39. Instructs its President to forward this resolution to the Council, the Commission, and the governments and parliaments of the Member States.