Senato della Repubblica

Camera dei deputati

CONFERENCE UNDER ARTICLE 13 OF THE FISCAL COMPACT

SESSION 4 - THE COORDINATION OF EUROPEAN TAX POLICIES AND THE CASE OF THE DIGITAL ECONOMY

Background Note

EU institutions view tax policies as an essential part of the toolkit for economic policy coordination in the European Semester[1]. Not surprisingly, the policy recommendations addressed to Member States often urge a shift in the tax burden from factors of production to consumption, real estate and polluting activities.

The financial and economic crisis has confronted Europe with the choice whether or not to proceed more quickly than hitherto towards the coordination of national tax policies.

In the area of taxation on consumption and, in particular, VAT, the EU has already reached an advanced level of integration.

As regards direct taxation, however, the absence of minimum coordination has encouraged the unfortunate phenomenon of tax competition among EU Member States, not only leading to distortions of the internal market, but also creating disparities in national tax systems.

In the absence of a common framework, competitive pressures have induced many Member States that are facing budget constraints to concentrate the tax burden on the least mobile factors of production and, notably, on labour.

This has given rise to misalignments in the tax treatment of different types of earnings, very much to the benefit of those who derive income from capital gains. According to the latest Eurostat data, in 2012 the proportion of total revenue raised from the taxation of work was 51% in the EU-28 and 53.3% in the

[1] For more information on the position of EU institutions in relation to taxation and, in particular, the coordination of direct taxation, see the following links:
- http://ec.europa.eu/taxation_customs/taxation/gen_info/tax_policy/index_en.htm;
- http://ec.europa.eu/taxation_customs/taxation/gen_info/good_governance_matters/european_semester/index_en.htm;
- http://ec.europa.eu/taxation_customs/taxation/gen_info/conference/index_en.htm;
- http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm;
- http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/presentation.pdf.

Eurozone; the taxation of consumption accounted for 28.5% (26.8% in the Eurozone); and the taxation of capital for 20.8% (20.2% in the Eurozone).

This disparity of distribution threatens to undermine the principle by which contributions to the public purse should reflect the taxpayer's actual ability to pay, so that the burden is fairly spread. This principle is enshrined in constitutions of European countries whose national parliaments should take the lead in engaging their governments and the European institutions to respect it.

Some argue that the requirement for unanimity among Member States for the adoption of resolutions relating to taxation within the EU is slowing down the process of building a common legal framework and developing comprehensive tax policy co-ordination.

On the other hand, the unanimity requirement itself attests to the great importance of the matter, which touches also upon fundamental rights of citizenship.

The persistence of large differences in tax systems within the EU can encourage opportunistic behaviour in view of the benefits to be gained from exploiting the opportunities offered by more advantageous regimes, and may lead to forms of tax arbitrage and avoidance, if not downright evasion.

A case in point regards the taxation levied on digital business activities.

The absence of common rules adapted to the peculiarities of the sector has opened the door to tax avoidance and the erosion of the tax base, with the result that the huge profits of certain multinational corporations that systematically operate in the EU market, from which they derive a significant share of their proceeds, are immune from the tax-levying powers of national revenue authorities.

The OECD has focussed on this issue and has recommended the adoption of more effective measures to discourage the transfer of intellectual property rights or intra-group operations towards low tax jurisdictions for tax avoidance purposes.

The report of the group of experts appointed by the European Commission to investigate the matter sets out recommendations in this regard, and advocates the introduction of a system of taxation that would not be limited to the collection of VAT, but would also extend into the area of direct taxation, determined with reference to the "destination" of goods and services. The report also calls for a review of the concept of "permanent establishment".

In light of the above considerations, we propose the following questions:

a) whether you agree on the need to proceed more rapidly with the process of coordinating tax systems in the European Union, with particular regard to direct taxation, in order to combat harmful tax competition and ensure greater equity in the distribution of the fiscal burden;

b) what practical steps can be taken within the EU to shift the tax burden from labour and business to capital gains, real estate and polluting activities, including by means of indirect taxation;

c) whether it would be desirable to introduce *ad-hoc* tools to combat phenomena of tax avoidance and tax base erosion in the digital economy and, in particular, whether the proposals submitted by the said group of experts might prove effective in this respect.