



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.7.2007
SEC(2007) 958 final

RECOMMENDATION FROM THE COMMISSION TO THE COUNCIL

**to authorise the Commission to begin negotiations on the Community's participation in
the work of the International Tax Dialogue**

EXPLANATORY MEMORANDUM

1) CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

The ITD is a *de facto* association between the OECD, the IMF and the World Bank. It has no rules of association or legal status and is currently governed by a written agreement signed by the representatives of the three participating organisations.

The ITD aims to:

- encourage real dialogue between the participating organisations and governments on tax matters, in order to provide all countries with information to consider in their deliberations on taxation policy and administration;
- identify and share good tax practice;
- coordinate tax-related activities currently under way to avoid duplication;
- provide useful information for technical assistance in tax matters.

Studies carried out by the ITD are published on its Internet website (<http://www.itdweb.org/Pages/Home.aspx>). The ITD also organises regular international conferences.

The ITD is mainly funded from contributions from the participating organisations. The level of these contributions is currently set by unanimous decision of a steering group made up of representatives of the participating organisations. In recent years, the contribution from each of the participating organisations has been approximately €100 000.

The ITD and its participating organisations have asked the Commission to become the fourth participating organisation.

- **General context**

One of the Commission's objectives is to facilitate worldwide coordination of taxation policy and administrative cooperation in tax matters. Given the globalisation of the economy and the increasingly international nature of trade, it seems ever more necessary to engage in dialogue with international organisations with a view to coordinating efforts to ensure that principles such as good governance and fiscal transparency are adhered to. The Commission wishes to engage in fully transparent dialogue with Member States.

The ITD is the most important high-level world forum to discuss taxation policy and tax administration issues. Enhanced dialogue between tax authorities at world level and close cooperation in specific areas should enable the rules and administrative procedures to be followed by European economic operators in tax matters to be simplified and updated. Active participation of the European Union, represented by the Commission, in ITD discussions means that possibilities for cooperation to combat

cross-border tax fraud worldwide can be looked into. Active participation of the European Union, represented by the Commission, in ITD discussions will also make it possible to analyse the efforts and experiences of third countries as part of the task of drawing up proposals to modernise the European VAT system.

- **Existing provisions in the area of the proposal**

There are no existing provisions in the area of the proposal.

- **Consistency with the other policies and objectives of the Union**

The Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions entitled “Governance in the European Consensus on Development – Towards a harmonised approach within the European Union” highlights the need to encourage good fiscal governance in developing countries. The objectives of the ITD are in line with this recommendation. The ITD commissions studies and organises conferences on a wide range of tax-related subjects, most of which are very close to the areas in which the European Union is active. Participation in the ITD will also enable synergies to be brought into play.

International coordination of fiscal policy and fiscal administrative practice is necessary for the proper functioning of the internal market.

The studies carried out by the International Tax Dialogue benefit developing countries with a view to encouraging good fiscal governance rules in accordance with the Community’s development policy and, particularly, the recommendations made by the Commission in its Communication to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions entitled “Governance in the European Consensus on Development – Towards a harmonised approach within the European Union”¹.

2) CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

There are no other interested parties than the Member States and the international organisations participating in the ITD.

- **Collection and use of expertise**

No recourse to external expertise has been necessary.

- **Impact assessment**

An operating subsidy for the ITD has been considered. This option has, however, been ruled out as it would not enable the European Union to have an active role in defining the ITD’s objectives and working plan.

¹ COM(2006) 421 final.

The preferred option is an agreement between the European Union and the ITD's partner organisations. This will give the Commission a place in the ITD's steering group and enable it to contribute to defining the ITD's work programme and priorities.

3) LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

This Commission Recommendation invites the Council to mandate the Commission to begin negotiations with a view to signing a partnership agreement with the ITD.

- **Legal basis**

Article 181(a) of the Treaty Establishing the European Community.

- **Subsidiarity principle**

The principle of subsidiarity applies insofar as the proposal does not concern an area in which the Community has exclusive competence.

The objectives of the proposal cannot be achieved to a sufficient extent by the action of Member States for the following reasons.

Only international organisations may be partners of the ITD. States may also be members but may not participate in the steering group.

States may not become ITD partners.

The aims of the proposal can be better achieved through Community action for the following reasons.

European Union participation in the ITD will enable a coordinated approach to be found and will give the European Union influence as regards the ITD's work programme.

Member States may become ITD members and have access to the findings of ITD studies, but will not have any involvement in defining the work programme.

The proposal therefore complies with the subsidiarity principle.

- **Proportionality principle**

The proposal complies with the proportionality principle for the following reasons.

Signing an agreement with ITD partners on behalf of the European Union will bring about full transparency as regards the Member States.

Commission participation in the work of the ITD on behalf of the European Union will enable the financial implications of such participation to be kept to a minimum.

- **Choice of instruments**

Proposed instruments: Recommendation.

Other instruments would not have been appropriate for the following reasons.

An agreement between the Commission and the other partner organisations of the ITD could have been concluded without involving the Member States, but this would not have given the European Union the necessary level of involvement in the ITD's work.

4) BUDGETARY IMPLICATIONS

At this stage this Recommendation does not have any budgetary implications; if, however, the Council subsequently mandates the Commission to become an ITD partner, this will involve an annual financial contribution of €130 000 for the next five years.

5) ADDITIONAL INFORMATION

- **Review/revision/sunset clause**

The proposal includes a review clause.

RECOMMENDATION FROM THE COMMISSION TO THE COUNCIL

to authorise the Commission to begin negotiations on the Community's participation in the work of the International Tax Dialogue

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

HEREBY RECOMMENDS:

that the Council authorise the Commission to negotiate the Community's participation in the work of the International Tax Dialogue;

that the Council, given that the Commission will be conducting these negotiations on behalf of the Community in accordance with the Treaty, appoint an *ad hoc* committee to assist the Commission in this task.

ANNEX

Letter dated 19 April 2007 from Mr Danny Leipziger, Vice-President of the World Bank to Commission Kovács inviting the European Union to join the International Tax Dialogue.

DANNY M. LEIPZIGER
Vice President and head of Network
Poverty Reduction and Economic Management

The World Bank
Washington, D.C. 20433
U.S.A.

April 19, 2007

Mr. Lászlo Kovács
European Commissioner for Taxation and the Customs Union
Taxation and Customs Union DG
European Commission
B-1049 Brussels
BELGIUM

*Please send TAX UD
for draft reply.*



Dear Commissioner Kovács:

Invitation to join the International Tax Dialogue

On behalf of the International Tax Dialogue (ITD) partners, I would like to express our appreciation for the European Commission's support for the ITD, in particular your participation in our global conferences.

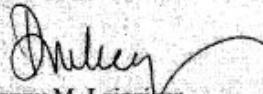
The ITD would very much welcome the opportunity to continue and expand joint work with the Commission. We would be delighted to have the Commission join us as an on-going partner in taking the ITD initiative forward by joining us as a fully participating organisation and member of our Steering Group which guides our work. This would give the Commission the opportunity to intensify its cooperation with the major international organisations active in the tax area and to jointly pursue common objectives and programs to improve the functioning of tax systems worldwide.

The attached Annex provides an overview of the background of the ITD, our objectives, scope, core activities, and structure.

The costs of the ITD are shared between participating organisations. Contributions for 2007–2011 are estimated to be EUR121,800 per annum, per organisation. This finances a small staff and the ITD's information technology infrastructure. As a full ITD partner, we would ask the Commission to make a similar level of contribution.

We greatly value the links between our organizations, and hope you will agree that the ITD provides a unique opportunity to deepen our cooperation in tax matters and thereby better serve our members.

Sincerely,



Danny M. Leipziger
Vice President and Head of Network
Poverty Reduction and Economic Management

Attachment

cc: Ms. Teresa Ter-Minassian, Director, Fiscal Affairs Department, IMF, Washington D.C.
Mr. Jeffrey Owens, Head of Taxation Policy and Administration, OECD, Paris