



European Economic and Social Committee

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Taxation in the European
Union

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OPINION

of the European Economic and Social Committee

on

Taxation in the European Union: common principles, convergence of tax laws and the possibility of qualified majority voting

On 17 July 2003, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Taxation in the European Union: common principles, convergence of tax laws and the possibility of qualified majority voting.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 26 November 2003. The rapporteur was **Mr Nyberg**.

At its 404th plenary session held on 10 and 11 December 2003 (meeting of 10 December), the European Economic and Social Committee adopted the following opinion by 78 votes to 23, with 15 abstentions.

1. Introduction

1.1 Tax policy is an aspect of macroeconomic policy that is always at the centre of the political debate, both at national and EU level. There are considerable differences between Member State tax policies. This is not just a matter of tax rates; there are already differences in the way the tax base is calculated and tax systems are organised in terms of tax collection, tax inspection, etc.

1.2 Different political parties have different ideas about the way they want to see tax systems evolve. The tax debate within the European Union suffers doubly in this respect, since the differences are not just between political parties, but also a consequence of the different frames of reference from national tax systems. Moreover, the discussions can be held with, on the one hand, all the Member States, and with the eurozone countries on the other.

1.3 This is why it is difficult to secure a common approach to taxation, and difficulties can already arise when describing tax systems, due to the different definitions of taxation and the fact that not all forms of taxation necessarily exist in all countries. It is our hope, however, that this opinion will push the debate forward and help us move towards a more unified approach to taxation and its development.

1.4 We take as our starting point the Treaty's rules on tax policy, and the debates and proposals of the Convention on the future of Europe. We will give a brief description of the way the fifteen tax systems of the European Union have developed. Although we are fully aware of EU enlargement in 2004, the lack of material has nevertheless obliged us to restrict our analysis to the current Member States.

2. Competence and decision rules – the Treaty of Rome and the Convention on the Future of Europe

2.1 The current rules on taxation and duties are contained in Articles 90 to 93 of the Treaty of Rome. The decision rules are in Article 93:

2.1.1 *"The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, adopt provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market within the time limit laid down in Article 14".*

2.2 The Convention on the Future of Europe discussed various new decision-making procedures in the field of taxation. Articles 90 to 92 remain unchanged, save for revised numbering. In the text submitted to the Intergovernmental Conference, the decision rules are contained in two articles.

2.2.1 *"Article III-62*

1. *A European law or framework law of the Council of Ministers shall lay down measures for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation provided that such harmonisation is necessary for the functioning of the internal market and to avoid distortion of competition. The Council of Ministers shall act unanimously after consulting the European Parliament and the Economic and Social Committee.*
2. *Where the Council of Ministers, acting unanimously on a proposal from the Commission, finds that the measures referred to in paragraph 1 relate to administrative cooperation or to combating tax fraud and tax evasion, it shall act, notwithstanding paragraph 1, by a qualified majority when adopting the European law or framework law adopting these measures".*

2.2.2 *"Article III-63*

1. *Where the Council of Ministers, acting unanimously on a proposal from the Commission, finds that measures on company taxation relate to administrative cooperation or combating tax fraud and tax evasion, it shall adopt, by a qualified majority, a European law or framework law laying down these measures, provided that they are necessary for the functioning of the internal market and to avoid distortion of competition.*
2. *That law or framework law shall be adopted after consultation of the European Parliament and the Economic and Social Committee".*

2.3 The first of these two articles (Article III-62) contains two paragraphs, the first of which replaces Article 93. The wording has been revised and uses the terminology suggested by the Convention in other articles. A substantive change, in addition to the link established with the single market, is the inclusion of the reference to harmonisation being necessary to avoid distortions of competition between firms. Articles III-62 and III-63 both use the word "and" in "for the functioning of the internal market and to avoid distortion of competition." In order to avoid situations in which this might be interpreted as applying to only one, the Committee suggests that "and" should be changed to "or".

2.3.1 The second paragraph is a clear extension, not of competence, but of the possibility of qualified majority voting. However, for all matters relating to the tax base and tax rates, unanimity continues to be required.

2.4 Article III-63 provides for greater use of qualified majority voting by introducing a new competence for dealing with administrative cooperation, tax fraud and tax evasion in relation to company tax. This constitutes an extension to the previous competence dealing with indirect taxation alone.

2.5 Both these Articles thus introduce a provision for qualified majority voting in certain limited cases, but the Council must always decide unanimously in cases of administrative cooperation, tax fraud or tax evasion. These decisions are, in the main, a matter for the Commission. Both Article III-62 and Article III-63 should therefore begin "Where measures...". This would mean deleting the phrase: *"Where the Council of Ministers, acting unanimously on a proposal from the Commission, finds that measure"*.

2.6 The Convention debates gave rise to proposals for more radical changes to the Treaty articles on taxation, in particular extending competence beyond indirect taxation and abandoning the unanimity requirement in favour of qualified majority voting for several tax matters.

2.7 Articles 94 and 95 (III-64 and III-65) deal with the arrangements for the approximation of single market legislation. Tax matters are specifically excluded from qualified majority voting. Article 96 (III-66) states that decisions can be made by qualified majority voting in cases where Member State legislation might distort competition in the single market. Since tax policy is not specifically excluded, it would be interesting for the Commission to test this Article in the area of corporate taxation, for example.

2.8 Article 175 (III-180) provides the legal basis for unanimous decisions on environmental taxes and charges, whereas qualified majority voting can be used for general environmental policy decisions.

3. **Direct and indirect taxes**

3.1 The fact that indirect taxation is governed by the Treaty explains its fundamental importance for the operation of the single market. However, a distinction is made between direct and indirect taxation in all other contexts.

3.2 Another category is usually used when referring to work, capital and consumption, the first two of which are subject to direct taxation. The picture is further complicated by the fact that income from work is subject to both income tax and social insurance contributions. Given the considerable differences in income tax/social insurance ratios, comparisons should always take these two aspects into account.

3.3 Furthermore, taxes can be national, regional or local. Major differences exist in the way taxation is distributed between these three levels.

3.4 One type of tax that has increased somewhat in importance, but which does not fit into the above classifications, is environmental tax. This can be applied in either the production or consumption stage, and can therefore be direct or indirect. The very name means that it is sometimes omitted from tax comparisons because it is often referred to as "charges". Regardless of the name, these taxes should be included in tax levy data.

4. Comparisons between the Member States

4.1 Our statistics are taken from a Eurostat publication entitled "Structures of the taxation systems in the European Union". They are particularly useful for comparison purposes since they are not only based on current tax rates, but also refer to the tax levy as a whole. For each form of tax, the amount actually collected is given as a proportion of the tax base. This is known as the "implicit tax rate". This means that both the tax rate and the way the tax base is calculated impact on the figure. Comparisons based on tax rates alone are likely to be misleading, since the rules for calculating the tax base can vary considerably. A high tax rate can yield low tax receipts if large deductions can be made when calculating the tax base.

4.2 The Eurostat data refers to 1995 – 2001, and reveals some general trends: (a) a trend towards reducing the share of tax levied on work (following a period when it had increased); (b) attempts to reduce corporation tax rates whilst increasing the tax base; and (c) increases in indirect taxation as part of the growth in "green" taxes. The latter has often been combined with a reduction in taxation on work. While these trends do exist, they are developing very differently from one Member State to another. Any decisions that might increase the differences between the Member States must be avoided.

4.3 If we need to divide the Member States into categories, we can say that in the Nordic countries, direct taxes account for a large proportion of tax receipts, whereas in Portugal and Greece, the same is true of indirect taxation. In Denmark, Great Britain and Ireland, social insurance makes up a small proportion of tax receipts.

4.4 Comparisons over time must also take into account the fact that any changes that occur are not necessarily due to real changes to the tax systems. During the second half of the 1990s, which was a period of growth, both household and corporate incomes increased. This led to higher receipts from direct taxation in both cases, as is clear in Eurostat table II-4.2, without any change to either tax rates or the tax base calculation rules. The situation changed with the end of this period of growth in 2001, and has now probably shifted to one in which tax receipts are falling without any changes being made to the systems.

4.5 There are differences in terms of the tier of government responsible for collecting taxes. In Greece, the local authorities collect 1% of the tax levy, whereas this rises to one third in Denmark. The local level accounts for a large proportion of tax receipts in all the Nordic countries.

The regional level collects a particularly large proportion in the "federal" countries, i.e. Germany, Belgium, Spain and Austria. These differences are important within each Member State, but not for relations between the Member States. Federal states could have problems in implementing EU level tax decisions if decisions are taken at federal state level.

4.6 The Member States are often grouped together according to size of the tax levy. A more complex picture emerges when looking at the tax burden on work, capital and consumption. Sweden and Finland appear as high tax countries for all three, whereas Denmark has particularly high tax rates for consumption, but not for capital. The low tax countries UK and Ireland actually have relatively high tax rates for consumption and capital. The low tax country Greece has a particularly high rate for consumption, which accounts for over 40% of all tax levies. Generally speaking, if the only previous criterion has been the general VAT rate, then the consumption tax rate would appear to be surprisingly high. When other sales taxes are included, along with the effect of reduced VAT rates, the differences between countries look somewhat different. As much as a third of Luxembourg's tax income comes from tax on capital. Denmark and the Netherlands have the highest proportion of environmental taxes.

4.7 In order to determine the effectiveness of taxation, we need to compare the data for actual tax levies with tax rates. If a country with a relatively high tax rate does not also have a high tax levy, then either the tax base is open to large deductions, or tax collection is inefficient. Given that the Commission and Eurostat have used such comprehensive tax bases as work, capital and consumption, it is difficult to compare actual tax rates, as these often affect only part of these three major taxation areas.

4.7.1 The issue of tax on capital raises the question of tax bases that are most vulnerable to the tax rules of others. However, it is extremely complicated to compare taxation of capital in order to assess where the effect on other countries is greatest. It comprises four main strands: corporation tax, tax on income from interest, dividends and capital gains. Here again, it is not possible to restrict a comparison of any of these to tax rates, since there are also differences in the scope of any deductions etc. It is not possible to consider only one of these; situations such as low corporation tax combined with high taxation of dividends and capital gains must also be taken into consideration. All these aspects of taxation have an impact on relations with other countries' tax systems.

4.8 Finally, it must be remembered that the tax levies described are only based on tax rates and the relevant tax bases. Many of the differences between the various countries are a result of other policy decisions. A tax deduction for children yields a lower total tax levy than does child allowance, although the actual level of support is the same. Reducing the VAT rate on children's clothes also has a different impact on tax receipts than does child allowance. The statistics also show that a lower VAT rate does not always have the desired effect on prices. A budget deficit will, of course, give lower receipts today, but higher ones when the deficit is gradually made good.

5. **Why taxes?**

5.1 Tax systems have developed over a long period of history. In European countries they are now accepted as part and parcel of a socially well-functioning democratic society, but there is no single reason for taxes; in fact, there are several.

- The main reason is, of course, to obtain money for the public sector and public services, thus enabling the provision of good social services. The amount of tax collected and the procedures for doing so depend largely on various traditions and on the desire to entrust various matters to the public sector.
- The decision to choose one form of taxation over another to fund the public sector impacts on income distribution and allocation of economic resources.
- The way the tax systems are organised and the relation between these systems and social security systems can impact on manpower levels and also on individual decisions as to how much to work.
- Monetary policy measures aside, tax changes are the most important and fastest economic policy measure available when seeking to influence the economic situation.
- Certain forms of tax aim to impact directly on the operation of the market. The most obvious example is the use of taxes or charges on activities that pose a danger to the environment, in an attempt to reduce production or consumption. Attempts to use specific taxes to curb consumption of tobacco and alcohol, for example, are another example.

6. **Tax base – tax rate**

6.1 Eurostat's decision to report tax receipts in terms of an "implicit tax rate", which takes account of both the tax base and the tax rate, is clear evidence of the fact that both are crucial to the tax levy. The general debate on taxation has focused excessively on tax rates.

6.2 Since tax rates are more controversial politically, we propose to begin by focusing on a study of the differences in the calculation of the tax base. This should then enable us, in stage two, to propose more common rules in order to bring calculation methods more closely together. In the third stage, where it is essentially tax rates that are responsible for the tax levy differences, the debate could focus on whether there should be a minimum tax rate.

6.3 However, there are some purely statistical problems involved in looking at tax rates alone. For example, there are considerable variations between the Member States as regards derogations from the general VAT rate. Consequently, there are differences in the extent to which countries exploit the potential tax base. This affects the amount of tax receipts collected through VAT

regardless of the general VAT rate¹. But this distribution of exemptions is significant and important as regards the repercussions on the distribution of incomes and on the degree of redistribution of tax regimes.

6.3.1 The Commission has said that "EU tax policy should continue to facilitate efforts to cut nominal rates while broadening the tax base, thus reducing the economic distortions associated with Member States' tax systems"². This type of tax policy approach must not just apply to VAT; it is perhaps even more important for other forms of tax such as corporation tax and environmental taxes.

6.3.2 Another tax base difference between the Member States is that only certain areas of public sector activity are subject to VAT. If a country with a large public sector wants to have as much VAT income as a country with a small public sector, it must set a higher VAT rate. This means that the VAT rate must be set nationally.

6.4 Judging by the tables on taxation of environmental factors contained in the appendix, there are also considerable differences in the way in which the base for these taxes or charges is calculated. Not all the countries generally regarded as taxing environmentally dangerous activities particularly heavily are included in the list of countries with high tax receipts from these forms of tax. There could be two reasons for this: either because there seems to be considerable scope for avoiding this type of taxation in a number of countries, or because the tax is so high that consumers actually choose to avoid these dangerous products. The "polluter pays" principle would have more impact if there were greater uniformity of the tax base rather than just sufficiently high tax rates. This is not just important from the environmental point of view, but also to achieve a more level playing field.

6.5 Although statistics are more readily available for the tax base and tax rates, there is a third area where differences between Member States can be seen: the way tax systems are organised. How is tax collected, i.e. who is responsible for tax collection? When does it take place and how often? What are the inspection procedures? Is modern computer technology used and do the authorities and the public have the necessary IT skills? Can the procedures be regarded as simple, or is there still a lot of unnecessary bureaucracy?

6.6 It is crucial to provide answers to these questions at national level, in order to establish the receipts actually generated by a certain tax rate and the costs involved. But it is also important to secure greater standardisation of the various procedures in order to facilitate the operation of the single market. It is often difficult to learn how to deal with a national system, but when engaging in international trade, one must be able to cope with several systems. In many cases, this can pose a greater obstacle than any tax rate differential. These problems can be insurmountable barriers for SMEs.

¹ A Swedish study shows that if the general VAT rate in Sweden were to apply to all goods and services, it could be lowered from 25% to 21-22%. Since one of the reduced VAT rates applies to foodstuffs, such a change could impact considerably on income distribution.

² COM(2001) 260

6.6.1 This type of problem must be an important focus of the Commission's continuing efforts. It is essential if the Member States are to accept a more standardised calculation of tax bases. It is also to be hoped that the new concept of "administrative cooperation" will cover all forms of cooperation that can eliminate unnecessary differences and red tape.

6.6.2 The question of introducing competition between different tax systems always leads to heated discussion. There is a need to be very explicit on what kind of competition it concerns. It is wrong to presume that it always concerns tax rates and tax bases. Competition that leads to more efficient and less bureaucratic systems should on the other hand always be welcomed. To achieve such a competition, which succeeds in bringing forward best practise, we propose that a new "open method of coordination" for such aspects of tax policy is considered.

7. Interdependence and the need for more standardised systems

7.1 As the Member States become more integrated economically, the differences in their tax systems become more important. Where the situation is static, the differences are of little consequence. They have arisen because traditions vary, and also because some countries have chosen to deliver a greater proportion of social services via the public sector, and therefore have a higher total tax percentage in the economy. The traditions are long ones, and economies have adapted over time. In a more dynamic economy, and particularly when the dynamism is partly the result of the rapid integration of several countries, some of the tax system disparities can have a greater impact on the way in which economies interact.

7.1.1 Market integration was facilitated by the decision to launch the Single Market and the establishment of EMU. The process could continue with ever more coordination, including in the area of economic policy, of which tax policy is a part. Integration goes hand in hand with increased competition. This improves efficiency and economic potential. When increased competition leads to increased productivity, the outcome can only be positive for businesses, employees and the economy as a whole.

7.1.2 However, the integration process contains inherent risks if, on the other hand, different methods are adopted in order to cope with increased pressure from competitors. It might be easier to accept weaker social or environmental protection, or to resort to tax policy when unable to secure productivity gains to cope with competition. This type of change cancels out the benefits of increased competition. Inadequate competitiveness either leads to changes for employees and the environment, or is transported to other countries via tax dumping. Single market legislation has often, but not always, managed to thwart this tendency towards weaker social and environmental protection. In the field of taxation, however, this has seldom been the case.

7.1.3 The correlation between tax policy and an inability to achieve a level playing field is not taken seriously enough. The Primarolo Report describes, for example, a number of corporation tax measures that distort competition. The Member States have undertaken to eliminate the most

detrimental of these (some 66 measures). The Commission is expected to produce a progress report on this soon. These direct system errors in tax policy must be removed.

7.2 The creation of the single market and the introduction of the single currency have, however, already provided a more level playing field. Policy measures have thus set limits for the operation of the market economy. While opinions might vary as to whether this process has been adequate or whether the actual content of the rules has always been optimal, there is considerable agreement that this development has been beneficial for the operation of the single market. Removing obstacles is especially important for SMEs, so that they can better exploit "international" trade within the single market.

7.2.1 The "fixed framework" approach to the operation of the single market, which aims to create a level playing field in which the Member States can compete, must continue to be applied. However, there is a particular need for more rapid decision-making in the field of tax policy, as this is crucial to securing a competitive climate. That said, we must be sure that taxation decisions do not stymie the growth of the single market. However, as mentioned in point 5.1, as well as being an economic policy instrument, taxation also encourages (or penalises) certain economic behaviour, particularly as part of an approach that is favourable to sustainable development, taking ecology into account. Consequently, there must be an exception to this rule, which is that there is justification for using environmental taxes to keep development from moving in a politically undesirable direction. Taxes that distort competition should be regarded in the same way as direct state aid. The impact on competition in the single market is the same.

7.2.2 If no policy decisions are taken, the more difficult competitive climate created by integration will put downward pressure on the taxes and charges that affect companies most directly. Lower tax levels, along with any reapportionment of the various types of taxation, are a mistake if market-driven. The latest reforms of corporation tax in the various Member States have all been in the direction of reducing tax rates, with the EU-15 average passing from 32.42% to 29.70%. If such changes are desired, they must result from policy decisions in which other countries' tax systems are not the decisive factor.

7.3 While most types of tax have no direct or decisive impact on the single market, they can, of course, play a very important role in the operation of national markets. The need for more uniform systems should, then, only be seen in relation to the operation of the single market.

7.4 The Treaty of Rome made indirect taxation a competence of the European Union precisely because it impacts on the internal market. The Convention added a certain degree of competence for corporation tax. However, it only refers to administrative cooperation, tax fraud and tax evasion. These are important measures, but they are far too limited to cover all the conceivable effects of corporation tax on the internal market.

7.4.1 The references to the operation of the single market and to measures to prevent distortions of competition are very welcome. The definition of "distortions of competition" will be very important and the discussion in the Primarolo Group can be a starting point.

7.4.2 We will only be able to say with certainty if "administrative cooperation" is an adequate expression when we have fully understood what it actually covers. If the intention is to try to secure greater standardisation for tax collection and recovery rules, tax inspection, tax return format and the like, then the term is acceptable. But if it only refers to the amount of cooperation needed when assisting people who move from one country to another or carry out transactions in several countries for one reason or another, then it is far too restrictive.

7.4.3 In addition to the restrictive wording, the biggest shortcoming is that there is no unified approach to the types of tax that are likely to impact on the single market and competition. By this we mean on the one hand, taxation of income from capital, which is of considerable importance to the development of a common European financial market and to easy access to investment capital in each country; and on the other, the lack of any reference to taxation to protect the environment.

7.5 The European Union must be given competence for all areas that affect the single market and competition conditions between Member States. This must include all taxes and charges that have such an impact. There must be no need for the EU to resort to the article that gives it the right to decide unanimously to address specific questions at Community level. In addition to widening the fields of competence, there is also a need to specify which areas are concerned (the single market and competition conditions), and whether decisions are to be taken unanimously or by qualified majority voting. A factor in choosing the decision-making procedure must be the increased difficulty in reaching a unanimous decision in a Union of 25 Member States.

8. Decisions currently in force

8.1 Despite the shortcomings in the wording of the Treaty, important tax questions have been on the agenda and certain decisions have also been taken in recent years.

8.2 On 3 June 2003, following a fourteen-year debate and much compromise, the Council of Ministers adopted a package of tax measures covering income from interest and corporation tax. It is probably easier to criticise the way this decision was made than its actual contents.

8.2.1 With regard to income from interest, it was decided that each country must report any interest paid to foreigners to their country of origin, so it can be taxed there. The ten new Member States will start to do this in 2007. Exemptions are provided for Luxembourg, Belgium and Austria, and for the "tax havens" (Switzerland, Monaco, Liechtenstein, Andorra, San Marino, Gibraltar and the Channel Islands), which will tax foreigners' savings at source and send three-quarters of the tax received to the saver's country of origin. All the rules will enter into force in 2005. In the countries benefiting from an exemption, the withholding tax rate will be 15%. It will rise to 20% in 2008 and to 35% in 2011. Moreover, the United States has agreed to provide information if required.

8.2.2 With regard to income from interest, the decision can be seen as far-reaching. However, the effects are limited in as much as other forms of capital income, such as share dividends and various insurance products, are not included.

8.2.3 The package also contains provisions on royalty payments, so that they will not be taxed twice. Corporation tax is also included through a code of conduct in which the Member States commit themselves to abolishing 66 specific measures with a view to preventing unfair competition. However, this part of the tax package has nothing to say on corporation tax rates. Consequently, one must realise that, in its present state, the tax package remains incomplete, especially as regards the corporation tax.

8.3 Environmental taxes and charges have also been on the agenda in recent years. Article 175 (III-130) provides that decisions on environmental taxes must be taken unanimously. Convention proposals to introduce qualified majority voting in this paragraph were defeated. A final decision remains to be taken on many Commission proposals, including the diesel tax and biofuels directives. On 27 October 2003, the Council adopted a decision on taxation of energy products. The decision will enter into force on 1 January 2004 and will reduce tax discrepancies for various types of energy. Over the last ten years there have been several promises to address this issue at European Council level.

8.3.1 The unanimity requirement is probably the reason why the Commission has not submitted formal proposals on packaging, CO₂ emissions from motor vehicles, aviation fuel, etc. Moreover, there are no proposals to grade products for taxation according to how dangerous they are.

8.4 In the meantime the Commission has also produced proposals for more standardised rules for reduced VAT rates on certain products. The Commission takes the view that a 10% disparity (15%-25%) is acceptable in the single market. However, with some reduced VAT rates the difference can be too great, going from 0% to 25%³.

9. **Qualified majority voting and minimum levels**

9.1 Unanimity is required for all EU tax decisions. The Convention has proposed a slight easing of this rule, but neither the calculation of the tax base nor of tax rates are covered by this proposal. The EESC has said on several previous occasions that the unanimity requirement for tax matters needs to be reviewed.

9.1.1 The unanimity requirement means that fewer proposals can be translated into decisions. It also means, as we saw with savings income, that it can take a tremendously long time to get a unanimous decision. Moreover, this particular case shows how players can exploit the unanimity requirement to promote their ideas in other policy areas. Another consequence is that the Commission, being only too aware of the need for unanimity, chooses not to submit proposals that a Member State is expected to oppose. A decision that includes all the Member States is always preferable. If, on the other hand, the unanimity requirement leads to decisions being taken by the eurozone countries or through reinforced cooperation, some inequalities will persist.

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See EESC opinion on COM(2003) 397 – CESE 1407/2003 (ECO/121)

9.1.2 As we see it, there is only one way to unravel all these knots. The European Union must have competence and be genuinely able to decide by qualified majority voting in tax matters whenever a country's ability to set its own taxes is largely dependent on the behaviour of the other Member States in a single market of 25. It is because of this situation, where the policy of one country impacts on the rest, that the IGC must exploit its room for manoeuvre to extend the scope for qualified majority voting on tax policy. National sovereignty for some tax decisions is an illusion when it is, in fact, the single market that sets the constraints for national tax decisions. A theoretical right to make decisions is no real sovereignty at all.

9.2 If the mobile tax base becomes less easy to tax because single market competition has harmonised tax rates downwards, the tax burden on the working population will increase and eventually become unbearable in the demographic scenario that awaits us. The need for transparent tax systems that are perceived to be fair will thus become even more important in the future, when demographic change leads to a reduction in the proportion of the working population that is paying for social security.

9.3 If qualified majority voting rules are adopted, the type of taxes concerned will have to be very clearly defined. Clearly, corporation tax, and taxation of income from capital and of environmentally hazardous activities belong in this category. There is no case for establishing a general right to adopt tax decisions by qualified majority voting. It must be restricted, as proposed by the Convention, to taxes that impact on the operation of the single market or are likely to cause distortions of competition. Taxation of earned income and, for example, property must therefore remain a national competence, and any EU-level decisions on these must be taken unanimously. It is therefore difficult to set any clear boundary. There are taxes such as VAT and other sales taxes that affect the single market in some respects, but any impact they might have does not constitute such a clear distortion of competition within the single market.

9.4 This restriction as to the type of tax concerned is one of two limitations. The second is that this is not a matter of harmonisation but only of setting minimum levels. A country's ability to set its tax rates as it wishes is only frustrated when certain countries cut their taxes to such low levels that the others are obliged to follow suit for the sake of competition. If, after the minimum levels have been set, a country chooses to keep taxes higher or even to increase them, it is a national matter. It can only have a domestic impact, i.e. a negative impact on the nation's ability to compete.

10. **Summary and conclusions**

10.1 The differences between Member State tax policies are not just confined to tax rates, but also to tax base calculation criteria and the way the tax systems are organised. Consequently, the difficulty encountered in achieving a common position on tax issues is not just a question of differing political views.

10.2 Under the tax policy changes proposed by the Convention on the Future of Europe, EU action can be legitimate not just for the needs of the single market but also to address distortions of competition. The Convention proposes a switch to qualified majority voting for administrative

cooperation, tax fraud and tax evasion, and that this shall also apply to corporation tax in addition to indirect taxes.

10.3 A comparison of the Member States' tax burdens on work, capital and consumption, and recourse to environmental taxes, reveals a complex picture. Data relating to corporation tax also show that changes in tax receipts can be a result of the economic situation, without the tax rules actually being altered.

10.4 In addition to the main objective of funding the public sector, taxes are used to impact on income distribution, the market (e.g. use of hazardous products), employment supply, and as a strand of economic policy to influence the business cycle.

10.5 With regard to tax policy, an attempt should first be made to secure more common rules for calculating taxes, deductions, etc., and the administration and efficiency of the systems before addressing tax rate decisions. Differences other than in tax rates can often be a source of major headaches, particularly for small firms that are thinking of launching their products on the single market.

10.6 As economic integration between the Member States gathers pace, so does the significance of tax system differences. Integration goes hand in hand with increased competition, which can improve efficiency and economic potential. However, when unable to cope with competition through productivity gains, there is a risk of resorting to weaker environmental or social protection, or tax cuts, in order to "protect" firms that are exposed to competition.

10.6.1 Measures that distort competition in areas such as corporate taxation must be eliminated. Tax policy must therefore be developed and decisions speeded up to provide a more level playing field. Taxes that distort competition have the same impact on the single market as direct state aid.

10.6.2 Convention proposals for simpler decision-making procedures for administrative cooperation and measures to combat tax fraud and tax evasion will only be meaningful if they are interpreted widely enough to reduce unnecessary differences in tax systems in order to improve the operation of the single market.

10.7 After a 14-year debate a decision has now been taken on the gradual introduction, by the year 2011, of a fairer system for taxing income from interest. Following the autumn 2003 decision, energy taxation will be more uniform, whereas most areas of environmental taxation appear to have got stuck in the decision-making machinery. With regard to corporation tax, a start has been made on the more detrimental rules, but there is still some way to go before we get a more comprehensive regulation.

10.8 The European Union must have competence and be genuinely able to decide by qualified majority voting in cases where a country's ability to set its own taxes is largely dependent on the behaviour of the other Member States. If the mobile tax base becomes impossible to tax, then the tax burden will increase on the fixed tax base, which means, basically, the working population.

10.8.1 Qualified majority voting must be restricted to certain types of tax, such as corporation tax, taxation of income from capital and of environmentally dangerous activities. It should also apply to taxes that impact on the operation of the single market or distort competition. It must not apply to any national differences that have no impact on the market or on competition. In addition to applying to certain types of tax only, qualified majority voting must only be used to set minimum levels.

Brussels, 10 December 2003.

The President
of the
European Economic and Social Committee

The Secretary-General
of the
European Economic and Social Committee

Roger Briesch

Patrick Venturini
