

# Taxation

## MEPs lecture Commission and Council

By Tanguy Verhoosel | Monday 17 October 2011

The European Parliament may lack powers on taxation but it certainly is not lacking in ideas: it has drawn up its first-ever 'annual tax report'. This first text urges the Commission and Council to take new initiatives to improve the way the single market works and to boost Europe's competitiveness.

The EP's Committee on Economic and Monetary Affairs (ECON) is now expected to debate the draft report by Olle Schmidt (Sweden, ALDE), which analyses taxation initiatives taken by the Commission in 2011 and emphasises the weaknesses that need to be corrected.

Parliament points out that the lack of coordination in the Union on tax policy "can lead to significant costs and administrative burdens for citizens and businesses operating cross-border within the EU". They still face problems of double taxation and have difficulty obtaining premiums, tax breaks or tax exemptions from foreign tax authorities.

MEPs also note that preventive agreements on double taxation concluded between states are insufficient to solve all the discrimination problems they denounce. They welcome in advance the legislative proposals the Commission will present, in 2012, to remedy the situation. In this context, they call for the introduction of a binding dispute settlement mechanism.

The draft report also points out that the lack of transparency and tax evasion "threaten government revenues and cost billions of euro" that member states need to consolidate their budgets during this crisis period.

The text notes that states should improve coordination of anti-abuse measures in relation to non-EU countries, and within the EU, target "artificial arrangements" in order to prevent "disproportionate restrictions" on cross-border activity. MEPs add that it is time to "finally" conclude the savings tax directive and call for the opening of new negotiations on tax information exchange agreements with Switzerland, Andorra, San Marino, Monaco and Liechtenstein.

In parallel, members of the EP ask the Commission to "identify the areas in which improvements to both EU legislation and administrative cooperation" between member states can be made to reduce tax fraud.

They call for greater budgetary resources and staff to be made available to the Commission's Directorate-General for Taxation and Customs Union (TAXUD) to develop suitable policies and proposals at EU level.

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## Parliament makes indirect appeal to Commission on VAT

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Stepping up the fight against fraud, granting exemptions to non-governmental organisations and small and medium-sized firms, reducing rates for 'green' products and more: in a resolution, adopted on 12 October, the European Parliament identifies ways of improving the European VAT system.

The non-legislative resolution (Parliament has no say on taxation), which supplements a report by David Casa (EPP, Malta), was approved by a very large majority: 521 to 50, with 58 abstentions. It was drafted in response to the green paper on the future of VAT, published by the Commission in December 2010 and the proposals it will present, at the end of 2011, on the future of the system, considered as obsolete (see *Europolitics* 4283).

MEPs do not call for harmonisation of the wide-ranging VAT rates in the Union. They simply outline key principles that should underpin the announced reform.

They stress the need to enhance the fight against VAT fraud – in particular the well-known carousel fraud schemes – that costs states around €100 billion in lost revenue every year. "It is high time we find a way to reduce fraud in the internal market, since governments tend to make up for lost revenues by raising direct taxes, especially income taxes," explained Casa.

In parallel, Parliament calls for a reduction of compliance costs and the administrative burdens imposed by the existing system on companies and NGOs. "Some companies I talked to told me that they would prefer to negotiate with countries outside the EU because VAT procedures are simpler there. This situation has to be brought to an end," insisted Casa.

The resolution therefore invites the Commission to set up a mechanism that would grant VAT exemptions for all or most activities of and transactions by NGOs, especially the smaller organisations. It also recommends the use of a harmonised EU-wide VAT exemption threshold for SMEs. This measure would facilitate their access to the entire single market and should be accompanied by the introduction of one-stop-shops by 2015 and simplified administrative formalities.

The resolution also calls on the Commission to propose to the 27 member states to adopt a "green VAT strategy". It should be based on the use of reduced rates for environment-friendly products as a way of making them more competitive with un-ecological alternatives manufactured at lower cost.

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