Contribution of taxation and customs policies to the Lisbon strategy

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The Committee on Economic and Monetary Affairs adopted an own-initiative report drawn up by Sahra **WAGENKNECHT** (GUE/NGL, DE) on the contribution of taxation and customs policies to the Lisbon Strategy. It recalled that decisions linked to fiscal policy, such as the provision of fiscal incentives to undertakings, were the main instrument not only for increasing the number of jobs, but also for increasing R&D investment and environmentally friendly technologies. However, it stressed that if fiscal policy were to make a substantive contribution to the Lisbon Strategy, the constant monitoring of the manner of redistributing additional revenue generated by such tax relief for undertakings was needed, with a view to ensuring that the additional revenue was in fact used to boost the labour market or make further investments in innovation and more energy-efficient technology.

Members shared the Commission's view that lack of coordination between direct tax systems might also lead to unintended non-taxation or abuse and, hence, erosion of tax revenues. It was necessary to set up a public finance policy environment favourable to growth and employment, and to promote healthy tax competition in the EU so that the tax burden was widely shared by employees and consumers, businesses and those deriving income from capital. Members underlined that, in general, tax systems in the Member States had gone too far in applying **relatively high rates to low tax brackets**, which discourages risk-taking and start-ups. The report recognised the difficulties facing SMEs in the EU and in other OECD countries in financing their projects and endorsed the provision of fiscal incentives to encourage SMEs to take more advantage of intermediary financing mechanisms, such as entrepreneurial share capital. It went on to draw attention to the shortfall in public revenue caused in the EU by tax fraud and took the view that a radical change was needed in the way that fiscal services operate based on modern organisational and sound administration principles. The Commission should take significant initiatives to support coordination at Community level in this sector.

With regard to **VAT relief**, this must be retained for community-oriented public or semi-public undertakings. A one-stop-shop for companies to deal with their EU-wide VAT obligation must be introduced. The Committee called on the Member States to seek to ensure greater fairness in the distribution of the tax. It criticised the **upward trend of VAT rates** in the EU, which has a regressive effect and reduces demand. The experience in some Member States had shown that greater revenue was generated when the tax base is widened, when employment growth caused an increase in consumption and when the conditions were right for black economy activities to become regularised, a process that would be endangered by an increase in VAT rates. Members reiterated support for experimenting with lower VAT rates for labour-intensive services as a structural element of the VAT system, with flexibility for Member States to apply such rates in sectors of proximity services that are mainly local and do not distort cross-border competition. They also supported the Commission's efforts to gear fiscal policy towards more ambitious environmental objectives. An increase in fuel taxes would have a positive environmental impact if economical and attractive means of mass transport were available. The Committee stressed the need to continue reducing taxes on employment as an important way to achieve the Lisbon objective of an employment rate of 70%.

Common consolidated corporate tax base: the Committee supported the Commission's efforts to establish a pan-European and uniform consolidated corporate tax base (CCCTB) which involved common rules regarding the tax base and in no way affected the freedom of Member States to continue setting their own tax rates. It considered it necessary that measures specifically designed to reduce tax compliance costs faced by SMEs, such as home state taxation provisions, be introduced. Members recommended,

while defining a framework of common standards, the development of a mechanism of allocating revenues among the Member States concerned.

Towards a more effective use of tax incentives in favour of R&D: tax incentives to encourage R&D activities were of great importance to achieve the Lisbon Strategy goals. The Committee noted, however, that such tax incentives should not be used as indirect subsidies to national firms. It was convinced that tax policy should be drawn up in such a way as to induce productivity-led growth in all sectors of the economy by allowing a taxpayer to either deduct or claim tax depreciation in respect of R&D expenditure. The technological gap among Member States meant that there were differences in tax policy and action should only be taken at Community level when action by individual Member States could not provide an effective solution.

Exit taxation: the report urged the Commission to adopt a more proactive strategy with regard to offshore financial centres. It supported the Commission's view that, when assets were transferred to a third country, it was justified to require taxes to be payable at the time of exit, because of the lack of cross-border administrative cooperation.

Tax treatment of losses in cross-border situations: the Committee called for a simplification of tax codes across the EU. The ruling of the Court of Justice in the Marks & Spencer Case was seen as Member States the right to maintain their tax systems. In situations involving cross-border losses by foreign subsidiaries, Members felt that the double taxation of parent companies must be avoided, fiscal competence must be fairly distributed between Member States, losses should not be offset twice, and tax avoidance must be prevented. It was necessary to work towards a system of cross-border loss relief, both for companies and groups with units abroad. The Commission communication on tax treatment of losses in cross-border situations was an appropriate basis for further discussion.