Contribution of taxation and customs policies to the Lisbon strategy

2007/2097(INI) - 24/10/2007 - Text adopted by Parliament, single reading

The European Parliament adopted an own-initiative report on the contribution of taxation and customs policies to the Lisbon Strategy. The rapporteur, Sahra **WAGENKNECHT** (GUE/NGL, DE), asked for her name to be removed from the report before the final vote, stating that the resolution no longer reflected her position. The resolution was adopted by 323 votes in favour to 214 against with 120 abstentions.

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 innovation and more energy-efficient technology.

Parliament regarded it as necessary to set up a public finance policy environment that was favourable to growth and employment in the economy, 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. The EU must promote tax arrangements to encourage the creation of new businesses and technological innovation. 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. It was possible to have competitive tax arrangements without undermining state funding, as seen in those European countries that had in the last decade succeeded in increasing their tax revenue through tax cuts accompanied by a widening of tax bases, while controlling expenditure, thereby reducing their deficits. 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 and business angel networks. 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. Parliament called on the Member States to seek to ensure greater fairness in the distribution of fiscal burdens and through better structure and targeting of the expenditure side of the budget. 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. However, action must be taken to avoid placing an even greater burden on poorer households. An increase in fuel taxes would have a positive environmental impact if economical

and attractive means of mass transport were available. Countries that were in the process of catching up were faced with higher external costs, for which they should not be penalised. Parliament stressed the need to continue reducing taxes on employment as an important way to achieve the Lisbon objective of an employment rate of 70%. It was important for the completion of the internal market to simplify customs legislation and to rationalise customs procedures with the purpose of reducing the administrative cost for enterprises engaged in cross-border transactions, maintaining a simplification of enterprises' cross-border compliance obligations. Members supported moving towards a simplified system for levying VAT on cross-border sales in the EU, for example, by implementing the reverse charge mechanism.

Common consolidated corporate tax base: Parliament 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. Furthermore, in order to establish a genuinely common unified tax base, it was also important to create comparable or, at best, common registration documentation for cross-border economic activities.

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. Parliament 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. The promotion of good practices for the design of R&D tax initiatives and better co-ordination of tax policy would help Member States meet the Lisbon Strategy objectives.

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: cases concerning taxation were frequently brought before the Court of Justice and this was mainly because of the lack of transparency and the high level of complexity of the taxation systems in Europe. Parliament called for a simplification of tax codes across the EU. It stated that, in situations involving cross-border losses by foreign subsidiaries, the double taxation of parent companies must be avoided, fiscal competence must be fairly distributed among Member States, losses should not be offset twice, and tax avoidance must be prevented. Without channels of cross-border loss relief, firms will seek to ensure that their profits are taxed in countries where the size of the home market is sufficient to generate enough profit to offset possible losses abroad. Parliament considered that it was necessary to work towards a system of cross-border loss relief, both for companies and groups with units abroad. It took note of the Commission communication on tax treatment of losses in cross-border situations. The Commission communication on tax treatment of losses in cross-border situations was an appropriate basis for further discussion specifically as regards the possible solutions, pending the application of the CCCTB, identified in the communication as regards implementing a system of loss relief and recapture by the host Member State .