Development of tax systems within the Union

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OBJECTIVE: The Commission proposed a new and comprehensive vision of taxation policy in an initial document entitled "Taxation in the European Union" published on 20 March 1996. At the informal ECOFIN Council meeting in Verona on 13 April 1996, finance ministers agreed on the need to take forward the consideration of these issues in a High-Level Group to be set up and coordinated by the Commission. On the basis of this group's work, the Commission drew up a second report which sets out the lines of action for the harmonization or coordination of the taxation policies of the Fifteen.
SUBSTANCE: In its analysis of the development of tax systems within the Union, the Commission points out that between 1980 and 1994 total taxes and social charges, expressed as a percentage of the EU average for GDP, increased by approximately 2% with, however, wide variations between Member States. Most of the total increase in taxation was accounted for by the rise in social security contributions. The European average of the implicit tax rate on employed labour increased steadily from 34.7% to 40.5%. The same rate for other factors of production (capital, self-employed labour, energy, natural resources) decreased from 44.1% to 35.2%. The rate for consumption was broadly stable, rising slightly from 13.1% to 13.8%. On the basis of its analysis, the Commission presents the way forward for the future, with three basic objectives: enterprise, employment and the environment. (1) Enterprise and the single market: the Commission highlights four areas of action which are essential to develop the taxation conditions for an optimum single market. The Commission will: - take forward its work programme for the introduction of a new common VAT system; - bring forward new proposals to remove tax disadvantages to cross-border economic activity, beginning with the payment of interest and royalties between associated companies; - clarify the scope and improve the consistent application of the Community competition rules, including the state aid rules; and - enhance the possibilities for greater cooperation and mutual assistance between tax authorities, notably through specific proposals in the area of the recovery of taxes. As for the taxation of savings, the Commission believes that the current situation is so disruptive that effective action must be taken. Introducing a minimum withholding tax would, in the Commission's view, be a valuable first step. It therefore urges the Council to restart its examination of the existing proposal on taxation of interest from savings. (2) Promoting employment: to promote employment, there is widespread agreement on the need to reverse the trend in taxation structures which places an increasing burden on labour compared to other tax bases. This approach must be followed in accordance with the principle of subsidiarity. Fiscal policy should also facilitate and sustain the job-creation capacity of SMEs. Taking better account for business taxation purposes of expenditure on intangible investment would contribute to raising qualifications, enhancing skills and improving innovation strategies. In the longer term, the Commission believes that there are major benefits to be derived from coordinating tax measures and presenting them as part of a Community-wide effort to reduce unemployment. (3) For the environment, the Commission acknowledges the need to explore an increased use of energy and environmentally related taxes. It will shortly be presenting a communication setting out guidelines for the Member States on the use of environmental taxes on the basis of current Community law. It will also be bringing forward new proposals on the taxation of energy products before the end of 1997. These proposals will provide a common framework, giving Member States flexibility to modulate their tax systems in the light of their own national circumstances while respecting the proper functioning of the single market. As regards methods, the Commission will propose that the task of strengthening cooperation should be entrusted to a taxation policy group which it would coordinate.