Combating harmful tax competition in the European Union

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OBJECTIVE: to propose a set of measures to combat harmful tax competition in the European Union. SUBSTANCE: following the informal meeting of Economics and Finance Ministers in Mondorf- les-Bains in September 1997 and the decision by the ECOFIN Council to hold an orientation debate on taxation, the Commission has submitted a working document as a basis for discussion on the concerted reduction of harmful tax competition in the Union. The purpose of the measures concerned is to reduce distortions of competition within the single market, prevent losses of tax revenue and reverse the tendency to tax labour more than more mobile factors. The proposed measures fall into 4 sections: a code of conduct for business taxation, measures to eliminate distortions arising from taxation of income from capital, measures to eliminate withholding taxes on payments of interest and royalties between associated companies of different Member States, and indirect taxation measures. 1) Business taxation: the draft code of conduct annexed to the communication is a non-binding but politically essential instrument, as it commits Member States to respect the principles of fair competition. It comprises a list of facilities or measures regarded as mutually damaging, based on a level of taxation significantly lower than that generally in force in a Member State (including zero taxation). The code provides for mutual information and assessment of harmful tax measures, freezing of any further damaging tax measures of the same kind in the Member States, dismantling of existing measures within a given time limit in the light of the assessment procedure, and a monitoring and review procedure after two years' application. The code of conduct also entails a commitment to cooperate fully in combating tax fraud and calls on the Commission to check the permissibility of certain State aid of a fiscal nature. 2) Taxation of income from savings: initially, the aim is to persuade Member States to enter into discussions concerning the basics of a future Directive on the subject. The underlying principles would be as follows: -the scope of the measure would be confined to interest paid in a Member State to natural persons who are not resident for tax purposes there but in another Member State, -"coexistence" of the two systems in order to guarantee at least a certain degree of effective taxation of income from the savings of non-residents: each Member State could operate a minimum withholding tax or provide information on savings income to other Member States, -in order to preserve the worldwide competitiveness of European financial markets, the Community legislation adopted would be disseminated outside the Community, -deduction of taxation at source on interest paid to residents of other Member States by the paying body (measures would also be taken to check the country of residence for tax purposes of the beneficiaries). 3) Interest and royalty payments: withholding of tax at source on payments of interest and royalties between companies creates obstacles to economic operators operating across borders (very protracted formalities, deprivation of cash funds, even double taxation). The Commission will therefore propose a Directive to eliminate it. 4) Indirect taxation: even though not all Member States are in favour of action in this field, a range of measures are proposed, particularly relating to VAT. The Commission considers that 4 types of measure should be taken: -the status of the VAT Committee should be altered to turn it into a regulatory body which helps the Commission to adopt measures to implement the 6th VAT Directive, -exemption of transactions relating to gold acquired as an investment (but taxation of gold for other uses, e.g. industrial), -taxation of energy products, -implementation of the FISCALIS programme to combat indirect tax fraud.