Combating harmful tax competition in the European Union

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OBJECTIVE: this communication (final version of the Monti memorandum) proposes a package to tackle harmful tax competition in the European Union. CONTENT: in the light of discussions in the Fiscal Policy Group (FPG), which highlighted the difficulty of coordination of fiscal policies as the way forward, the Commission has revised the list of factors proposed in its communication of 1 October 1997 downwards and proposes a package of measures which should represent an important step towards increased coordination and real progress in the fight against harmful tax competition in the European Union. This package consists of three proposals: a code of conduct for business taxation, the outline of a minimal Community solution to the problem of tax on income from savings and an agreement making provision for the abolition of tax at source on cross-border payments of interest and royalties between companies. 1) Business taxation: a revised draft code of conduct is annexed to the communication. It makes provision first for all harmful tax measures to be frozen and then for existing measures to be dismantled within a period of two years (or longer in specific cases, in order to take account of the legitimate expectations of operators). In order to safeguard efficiency, the code would have a monitoring mechanism and would be reviewed after two years in application. The Council would undertake to cooperate fully in the fight against tax avoidance and tax evasion within the framework of the exchange of information between Member States. 2) Tax on savings: the Commission proposes a number of factors which could be used as the basis for a directive to be presented by April 1998: a) the scope of the directive 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; b) the directive would be based on the "coexistence" model, under which each Member State operates a minimum withholding tax or provides information on savings income to other Member States; c) any taxation at source on interest paid to residents of other Member States would, in principle, be deducted by the paying body; d) in order to preserve the worldwide competitiveness of the European financial markets, the Member States would endeavour to disseminate the legislation adopted outside the Community; 3) interest and royalty payments between companies: the Commission invites the Member States to make a political commitment to make every effort to adopt quickly the proposal for a directive which it would submit by February 1998. The Commission also emphasizes the urgent need for progress on numerous aspects of indirect taxation, especially the question of VAT on cross-border leasing agreements. It also undertakes to deal with the question of state aid of a fiscal nature.