

Common system of taxation applicable to interest and royalty payments made between associated companies of different Member States. Tax package

1998/0087(CNS) - 04/03/1998 - Legislative proposal

OBJECTIVE: to abolish the deductions at source on interest and royalty payments between associated companies. **SUBSTANCE:** the proposal for a directive forms part of the tax programme adopted by the Ecofin Council in December 1997 alongside the code of conduct on business taxation and the proposal for a directive being prepared on taxation on savings income. The aim of the directive in the field of savings will be to eliminate non-taxation of income while this proposal is aimed at eliminating the distortions which arise through double taxation. It seeks in particular to establish the principle that the Member States should not impose taxes on interest and royalties arising in their territory but beneficially owned by non-resident companies, in order to ensure that such income is taxed only once in the Member State in which the beneficial owner is established. Initially it is only proposed that the taxes collected at source or by assessment on interest and royalty payments made between associated companies, including the permanent establishments of such companies, should be abolished. Subsequently, as part of the further development of the Single Market, it is proposed that this measure should be extended to taxes of this type levied on interest and royalty payments made between companies which are not associated. This Directive does not preclude Member States from taking steps to combat fraud and abuse. It provides that the Commission will report on the operation of the directive three years after its entry into force, in particular with a view to an extension of its scope.