Contribution of taxation and customs policies to the Lisbon strategy

2007/2097(INI) - 25/10/2005 - Non-legislative basic document

PURPOSE: to set out the Community's key taxation and customs policies in order to promote the Lisbon strategy.

CONTENT: the purpose of the Lisbon strategy is to make Europe a more attractive place in which to invest and work, to promote knowledge and innovation and to shape policies that allow European businesses to create more and better jobs. For this to succeed taxation and customs polices will play a significant role. The main objective of this Communication is to present some of the key Community taxation and customs policy initiatives that will contribute towards the realisation of the Lisbon strategy. It sets out, in a comprehensive manner, both ongoing and planned customs and tax measures that represent a coherent set of initiatives supporting one of the main EU political commitments.

As far as taxation is concerned the report notes that whilst some degree of tax competition is healthy and can have positive economic effects, the main objective of any tax system is to raise a certain amount of revenue in order to finance public services and transfers. At the same time tax systems can entail costs and the existence of different national tax systems in the EU represents a sizeable source of extra cost in terms of administrative tax compliance. Taxation policy could have a proactive role in boosting knowledge and innovation for growth.

As far as customs policy is concerned, the report argues that it plays an important role in boosting trade. Simplified customs legislation, streamlined customs processes and the creation of a coherent and interoperable electronic customs system means that traders save money and time. Further, computerisation and interoperability ensures the traceability of goods.

Making Europe a more attractive place to invest and work: The bulk of action taken by the EU in the field of taxation policy addresses issues concerning the establishment and functioning of the internal market. Hence the importance of the two Community programmes: Customs 2013 and Fiscalis 2013. At present several aspects of national tax systems have negative effects on market integration. The removal of national obstacles will allow businesses to make better economic choices. In order to address the challenges identified above the Communication goes on to examine a number of Community led tax initiatives that could help boost the Lisbon strategy objectives:

A Common Consolidated Corporate Tax Base for EU business: At present, 25 different, and often incompatible, corporation tax systems exist in the EU. Further, corporate tax rules treat cross-border activities in the EU differently and (frequently) less favourable than similar, purely domestic activities. This has the effect of encouraging firms to invest domestically rather than cross-border. Although many challenges still exist, the Commission nevertheless intends to carry out preparatory work towards a Common Consolidated Tax Base with a view to presenting a legislative measure by 2008.

Simplifying the tax environment and creating a level playing field: This project relates, in particular, to tackling VAT rules and obligations (international services, compliance obligations, financial services) as well as rules governing the exemptions of services in the public interest and the exclusion of public bodies from the scope of VAT applications.

Targeted measures to remove cross-border tax barriers faced by EU firms: In the field of corporate taxation, the Commission has identified several targeted solutions seeking to remove single tax barriers.

They include: cross-border loss relief; transfer pricing; capital duty; a new strategy for car taxation; and reducing distortions created through tax fraud and tax evasion.

Ensuring open and competitive markets inside and outside Europe: Action to improve the international competitiveness of EU firms is considered essential if the Lisbon agenda is to be fulfilled. The Commission's strategy is to target counterfeiting and implementing effective policies that protect intellectual property rights.

Improving customs legislation and compliance and promoting eCustoms: Simple, predictable and cost-effective formalities for the cross-border movement of goods are central to increasing economic growth. Customs work ensures the maintenance of a level playing field as well as ensuring that trade-sensitive consumer goods produced in the EC obtain the full benefits associated with their production. Hence the Commission's proposals for eCustoms that creates a modernised, electronic, Customs Code.

Improving European and national regulation: Better regulation is an important element of the renewed Lisbon strategy. In the area of VAT, the Commission has made several proposals aimed at improving the regulatory framework in a bid to remove obstacles to market functioning and to introduce more competition.

Knowledge and innovation for growth: R&D plays a pivotal role in economic growth. Investment in R&D creates a number of positive spill-over effects. As a result a number of measures, designed to promote R&D, have been included in the Lisbon agenda. For its part, the Commission has published a "Communication providing guidance on R&D tax incentives". In other fields the report examines the sustainable use of resources for energy, transport and environment-relates tax purposes. This part of the report examines, in detail, the effect of taxing commercial diesel, energy taxation as well as car taxation.

To conclude, the initiatives outlined above should help to renew growth and create more and better jobs. At a Member State level, specific taxation measures can contribute to raising employment and promoting socially inclusive economies. Relatively heavy taxation on labour appears to act as a disincentive to the creation of additional jobs, especially low skilled jobs. Broadening the tax base and by getting more people in work is still, according to this report, the most effective way for governments to raise revenues without the need to raise tax rates. A shift from labour to consumption and/or pollution taxes could also help as part of a broader strategy to increase employment levels.