Basic information

2007/2097(INI) INI - Own-initiative procedure	Procedure completed
Contribution of taxation and customs policies to the Lisbon strategy **Subject** 2.60 Competition 3.45.04 Company taxation 4.15.05 Industrial restructuring, job losses, redundancies, relocations, Globalisation Adjustment Fund (EGF) 7.30.02 Customs cooperation	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	WAGENKNECHT Sahra (GUE/NGL)	15/11/2005

Committee for opinion	Rapporteur for opinion	Appointed
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.	
JURI Legal Affairs	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
Taxation and Customs Union	KOVÁCS László

Key events

Date	Event	Reference	Summary
25/10/2005	Non-legislative basic document published	COM(2005)0532	Summary
26/04/2007	Committee referral announced in Parliament		
09/10/2007	Vote in committee		Summary
15/10/2007	Committee report tabled for plenary	A6-0391/2007	

23/10/2007	Debate in Parliament		
24/10/2007	Decision by Parliament	T6-0470/2007	Summary
24/10/2007	Results of vote in Parliament		
24/10/2007	End of procedure in Parliament		

Technical information	
Procedure reference	2007/2097(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/45716

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Amendments tabled in committee		PE390.710	29/06/2007	
Committee report tabled for plenary, single reading		A6-0391/2007	15/10/2007	
Text adopted by Parliament, single reading		T6-0470/2007	24/10/2007	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2005)0532	25/10/2005	Summary
Document attached to the procedure	COM(2006)0728	22/11/2006	Summary
For information	SEC(2006)1515	22/11/2006	

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.

Contribution of taxation and customs policies to the Lisbon strategy

2007/2097(INI) - 24/10/2007 - Text adopted by Parliament, single reading

The European Parliament adopted an own-initiative report on the contribution of taxation and customs policies to the Lisbon Strategy. The rapporteur, Sahra **WAGENKNECHT** (GUE/NGL, DE), asked for her name to be removed from the report before the final vote, stating that the resolution no longer reflected her position. The resolution was adopted by 323 votes in favour to 214 against with 120 abstentions.

It recalled that decisions linked to fiscal policy, such as the provision of fiscal incentives to undertakings, were the main instrument not only for increasing the number of jobs, but also for increasing R&D investment and environmentally friendly technologies. However, it stressed that if fiscal policy were to make a substantive contribution to the Lisbon Strategy, the constant monitoring of the manner of redistributing additional revenue generated by such tax relief for undertakings was needed, with a view to ensuring that the additional revenue was in fact used to boost innovation and more energy-efficient technology.

Parliament regarded it as necessary to set up a public finance policy environment that was favourable to growth and employment in the economy, and to promote healthy tax competition in the EU, so that the tax burden was widely shared by employees and consumers, businesses and those deriving

income from capital. The EU must promote tax arrangements to encourage the creation of new businesses and technological innovation. Members underlined that, in general, tax systems in the Member States had gone too far in applying relatively high rates to low tax brackets, which discourages risk-taking and start-ups. It was possible to have competitive tax arrangements without undermining state funding, as seen in those European countries that had in the last decade succeeded in increasing their tax revenue through tax cuts accompanied by a widening of tax bases, while controlling expenditure, thereby reducing their deficits. The report recognised the difficulties facing SMEs in the EU and in other OECD countries in financing their projects and endorsed the provision of fiscal incentives to encourage SMEs to take more advantage of intermediary financing mechanisms, such as entrepreneurial share capital and business angel networks. It went on to draw attention to the shortfall in public revenue caused in the EU by tax fraud and took the view that a radical change was needed in the way that fiscal services operate based on modern organisational and sound administration principles. The Commission should take significant initiatives to support coordination at Community level in this sector.

With regard to **VAT relief**, this must be retained for community-oriented public or semi-public undertakings. A one-stop-shop for companies to deal with their EU-wide VAT obligation must be introduced. Parliament called on the Member States to seek to ensure greater fairness in the distribution of fiscal burdens and through better structure and targeting of the expenditure side of the budget. It criticised the upward trend of VAT rates in the EU, which has a regressive effect and reduces demand. The experience in some Member States had shown that greater revenue was generated when the tax base is widened, when employment growth caused an increase in consumption and when the conditions were right for black economy activities to become regularised, a process that would be endangered by an increase in VAT rates. Members reiterated support for experimenting with lower VAT rates for labour-intensive services as a structural element of the VAT system, with flexibility for Member States to apply such rates in sectors of proximity services that are mainly local and do not distort cross-border competition. They also supported the Commission's efforts to gear fiscal policy towards more ambitious environmental objectives. However, action must be taken to avoid placing an even greater burden on poorer households. An increase in fuel taxes would have a positive environmental impact if economical and attractive means of mass transport were available. Countries that were in the process of catching up were faced with higher external costs, for which they should not be penalised. Parliament stressed the need to continue reducing taxes on employment as an important way to achieve the Lisbon objective of an employment rate of 70%. It was important for the completion of the internal market to simplify customs legislation and to rationalise customs procedures with the purpose of reducing the administrative cost for enterprises engaged in cross-border transactions, maintaining a simplification of enterprises' cross-border compliance obligations. Members supported moving towards a simplified system for levying VAT on cross-border sales in the EU, for example, by implementing the reverse charge mechanism.

Common consolidated corporate tax base: Parliament supported the Commission's efforts to establish a pan-European and uniform consolidated corporate tax base (CCCTB) which involved common rules regarding the tax base and in no way affected the freedom of Member States to continue setting their own tax rates. It considered it necessary that measures specifically designed to reduce tax compliance costs faced by SMEs, such as home state taxation provisions, be introduced. Members recommended, while defining a framework of common standards, the development of a mechanism of allocating revenues among the Member States concerned. Furthermore, in order to establish a genuinely common unified tax base, it was also important to create comparable or, at best, common registration documentation for cross-border economic activities.

Towards a more effective use of tax incentives in favour of R&D: tax incentives to encourage R&D activities were of great importance to achieve the Lisbon Strategy goals. Parliament noted, however, that such tax incentives should not be used as indirect subsidies to national firms. It was convinced that tax policy should be drawn up in such a way as to induce productivity-led growth in all sectors of the economy by allowing a taxpayer to either deduct or claim tax depreciation in respect of R&D expenditure. The technological gap among Member States meant that there were differences in tax policy and action should only be taken at Community level when action by individual Member States could not provide an effective solution. The promotion of good practices for the design of R&D tax initiatives and better co-ordination of tax policy would help Member States meet the Lisbon Strategy objectives.

Exit taxation: the report urged the Commission to adopt a more proactive strategy with regard to offshore financial centres. It supported the Commission's view that, when assets were transferred to a third country, it was justified to require taxes to be payable at the time of exit, because of the lack of cross-border administrative cooperation.

Tax treatment of losses in cross-border situations: cases concerning taxation were frequently brought before the Court of Justice and this was mainly because of the lack of transparency and the high level of complexity of the taxation systems in Europe. Parliament called for a simplification of tax codes across the EU. It stated that, in situations involving cross-border losses by foreign subsidiaries, the double taxation of parent companies must be avoided, fiscal competence must be fairly distributed among Member States, losses should not be offset twice, and tax avoidance must be prevented. Without channels of cross-border loss relief, firms will seek to ensure that their profits are taxed in countries where the size of the home market is sufficient to generate enough profit to offset possible losses abroad. Parliament considered that it was necessary to work towards a system of cross-border loss relief, both for companies and groups with units abroad. It took note of the Commission communication on tax treatment of losses in cross-border situations. The Commission communication on tax treatment of losses in cross-border situations was an appropriate basis for further discussion specifically as regards the possible solutions, pending the application of the CCCTB, identified in the communication as regards implementing a system of loss relief and recapture by the host Member State .

Contribution of taxation and customs policies to the Lisbon strategy

2007/2097(INI) - 22/11/2006 - Document attached to the procedure

PURPOSE: an analysis of national and EU R&D tax incentives.

CONTENT: in adopting the Lisbon Strategy, the Member States committed themselves to investing 3% of GDP, by 2010, in R&D. Of this amount, 2% should come from the private sector. In 2005, the Commission Communication on the contribution of taxation and customs policy to the Lisbon Strategy, stated that the Commission intended to promote a more consistent and favourable tax environment for R&D, whilst at the same time recognising Member States' powers over national tax policy (See COM/2005/0226). To that end, this report provides guidance to the Member States on how to improve their R&D tax treatment and to help develop mutually consistent solutions to common problems. The report does do by:

- clarifying the legal conditions for Member State R&D tax incentives arising from EU law, notably relevant ECJ jurisprudence on the EU Treaty freedoms and State aid rules;

- highlighting general design features for R&D tax treatment and incentives based on expert analysis of good practice; and

- presenting, for future discussion, a number of possible initiatives that address issues of common interest in a consistent way.

EU law and R&D tax incentives: All R&D tax incentives implemented by the Member States must conform to fundamental Treaty freedoms and the principle of non-discrimination. Any R&D tax incentive imposing restriction on where the R&D is performed (territorial restriction) has to be scrutinised in order to verify compatibility with EC Treaty provision (Article 43 freedom of establishment and Article 49 freedom to provide services). The Commission is currently examining the compatibility of Member State legislation in this respect and has identified a number of problematic cases that have been, or are being, discussed in the Member States. The territorial restrictions of one Member States' R&D tax incentives are currently before the ECJ (Commission vs. Spain). In others (e.g. France, the Netherlands , Belgium) Commission initiatives have already prompted Member States to amend their tax legislation or practice. In order to analyses these issues further, this section of the report goes onto examine, in detail the following:

- *R&D tax incentives' compatibility with the EU's fundamental freedoms*: The Commission is of the view that both explicit and implicit territorial restriction are incompatible with the EU Treaty. The paper also addresses questions relating to fiscal supervision, loss of tax revenue, the prevention of tax avoidance and promoting national R&D and national competitiveness.

- *R&D tax incentive's compatibility with State Aid rules*: National R&D tax incentives are not only subject to legal constraints imposed by the Treaty but they also need to be in line with Community State Aid rules. In certain circumstances national R&D tax incentives could constitute State Aid. Thus, when assessing an R&D tax incentives that constitutes State Aid (within the meaning of Article 87) the Commission will look at: whether it applies to one or more R&D category; whether it relates solely to certain eligible R&D costs listed in the framework; and the aid intensity of the R&D tax incentive.

Good design features for R&D tax treatment and incentives: Member States' best practice are currently disseminated via CREST expert reports. These reports provide an overview and analysis of the various R&D tax incentives and reflect the diversity of situations in the countries concerned (general tax policy, industrial structure, private sector R&D performance etc). There is no single answer as to how R&D tax incentives should be designed, implemented or evaluated. Nevertheless, based on expert analysis of the various schemes a number of guiding principles can be defined. They include, for example, the need for tax incentives:

- to reach more firms and to minimise market distortions;

- to include all current expenses and consider certain types of R&D related capital expenditure;

- to focus on ascertaining the direct additionality of tax incentives and their behavioural additionality;

- to consider evaluation criteria and data from the design stage;

- to test whether tax incentives have met their specific objectives;

- to test whether their delivery/administration mechanism was efficient; and

- to assess what their wider societal effects may be.

More detail regarding their generic design and implementation principles are set out in Annex to the report.

Orientations for measures of common interest and mutual benefit: A number of other specific tax issues can be applied consistently, on top of the basic design principles, outlined above. Some of these issues are research-related aspects of the general taxation system whilst others concern R&D issues of common interest. The common aim of the initiatives discussed under this section is to ensure that tax policy contributes more to achieving a knowledge-based economy by establishing a consistent framework conducive to more investment in R&D and improving the functioning of the internal market. The initiatives analysed under this heading include: supporting large-scale trans-national R&D projects; targeting Young Innovative Enterprises; promoting philanthropic funding or research; the cross-border mobility of researchers; facilitating cross-border outsourcing of R&D; R&D's relationship with VAT; and R&D treatment in the common consolidated tax base.

Conclusions: The Commission acknowledges the recent trend in many Member States to provide more favourable tax treatment for R&D and welcomes these efforts to raise R&D business expenditure. The growing diversity of R&D tax incentives risks further fragmenting the European corporate fiscal landscape and could lead to their less than optimal cross-border use. As a result, a certain degree of co-ordination is needed in order to foster the effective use of R&D tax incentives across the EU and in order to improve trans-national research co-operation.