

Thursday, 17 November 1983

RESOLUTION

on the harmonization of taxation in the Community

The European Parliament,

- A. having regard to the Commission report on scope for convergence of the tax systems in the Community (COM(80) 139 final),
- B. having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 1-903/83),

1. Considers that progress achieved to date in the harmonization of taxation in the Community falls far short of what is required for the implementation of Articles 95 *et seq.* of the EEC Treaty and for economic and monetary union;

2. Points out that the lack of tax harmonization constitutes not only a source of discrimination and distortion, to the detriment of producers, dealers and consumers, but is also a cause of inconsistency and ineffectiveness in the economic policy pursued in the Community;

3. Notes that, in matters of taxation, the role of the European Parliament has become crucial and that, in addition to its right to be consulted, it must in particular ensure the implementation of an overall programme of tax harmonization within the Community aimed at abolishing tax frontiers and harmonizing tax burdens on undertakings in gradual but effective stages and helping thereby to complete the establishment of the internal market and contributing to the success of common policies;

4. Hopes, by this own-initiative report, to help overcome more rapidly the excessive number of obstacles to the free movement of persons, goods, services and capital still in existence which impede the development of a genuine European Economic Community and therefore calls on the Member States and all the sectors concerned to do their utmost to contribute to this goal; deplores the administrative burden imposed on individuals and undertakings alike, where that burden cannot be justified in terms of raising revenue;

5. Stresses that fiscal harmonization should not be undertaken in such a way as to impair the competitive position of Community enterprises as compared with their non-European rivals;

— *Abolition of fiscal obstacles to the free movement and freedom of establishment of persons*

6. Believes that taxation is a vital factor in European integration and more specifically in the establishment of the internal market affecting the daily lives of the citizens of the Community, and that fiscal obstacles to the free movement of persons, ideas, mail and workers in frontier areas should be abolished;

calls, therefore:

- (a) on the Council to adopt as soon as possible the new proposals, resulting from Parliament's vote, for a Sixth and Seventh Directive on exemption from import duties for goods contained in travellers' personal luggage, which include in particular a multiannual programme for the more gradual extension of exemptions better adapted to the changes in the cost of living than the current system, bearing in mind that this proposal is merely a first step towards the complete abolition of taxes in the next five years;
- (b) for exemption from import duties to be applied throughout the Community to books, magazines and newspapers sent from a taxable person in one Member State to a private individual established in another Member State;
- (c) on the Council to adopt as soon as possible the Directive on the harmonization of provisions concerning income tax paid by frontier workers to reduce existing disparities between income tax payable by resident and non-resident workers;

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- (d) on the Commission to draw up a Directive which would allow workers employed temporarily in another Member State to deduct the contributions paid to a pension fund in their country of origin from tax on natural persons;

— *Abolition of fiscal obstacles to the free movement of goods and services*

7. Calls on the Commission and the Council to complete their work on the harmonization of VAT, the first major step towards the objective of fiscal neutrality, by further progress on the collection of VAT, standardization of the basis of assessment and reduction of the number and range of different rates;

8. Calls on the Council to adopt as soon as possible the proposal for a 14th Directive on deferred payment of import duty, a measure designed to simplify administrative procedures and offer advantages for businessmen and for the European economy as a whole;

9. Calls on the Commission and the Council to further measures already adopted on the standardization of the basis of assessment of VAT, in particular:

(a) by gradually reducing the number of rates,

(b) by gradually eliminating the derogations currently listed under Article 28 of the Sixth VAT Directive, which lead to distortions of competition,

(c) by adopting the Seventh Directive on VAT concerning works of art and secondhand goods, although the Commission must ensure in this case that the levying of VAT does not have cumulative effects, and the 10th Directive on the renting of tangible personal property;

these measures being essential to achieve the objective of neutrality;

10. Finds that the number of different rates of VAT, is still too high and is one of the causes of distortion; calls on the Commission, therefore, to submit the necessary proposals to move towards a dual-rate system with a reduced rate for essential foodstuffs and for special cases and a standard rate for other products and services;

11. Notes that far from decreasing, the difference between reduced and standard rates of VAT is steadily increasing and that on the whole rates have risen continuously over the past 15 years; considers it necessary and sufficient to move towards a dual-rate system, bearing in mind the budgetary, economic and social implications of changes to these rates;

12. Underlines also the need to harmonize the scope of each of these rates, bearing in mind the widely varying methods of classification currently applicable in the various Member States;

13. Reaffirms⁽¹⁾ that in order to create uniform conditions of competition, the Commission's approach to the harmonization of taxes other than turnover taxes which affect the consumption of manufactured tobacco, which consists in harmonizing the relation between the *ad valorem* and specific elements of tax, should be replaced by the alternative approach involving the harmonization of the *ad valorem* element of tax as a proportion of the retail selling price; finds it unacceptable that, contrary to the opinion of Parliament, the Commission has refused to withdraw its proposal on the third stage of harmonization and

⁽¹⁾ Resolution of the European Parliament of 14 December 1982 — OJ No C 13, 17. 1. 1983, p. 27.

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insists once again that the Commission draw up a new proposal based on the alternative approach as soon as possible;

14. Points out that in relation to alcoholic beverages, the continuing application of 10 separate tax systems, which reflect national traditions and interests, deprives consumers and producers of the benefits of belonging to the EEC by inhibiting trade and distorting competition: regrets that all attempts within the Council to reach a political agreement on this subject have ended in deadlock: considers that the Commission is right to propose harmonization of structures before harmonization of rates; believes that a new approach is necessary; considers that existing distortions of competition and restrictions on inter-State trade can be eliminated only by taxation which recognizes that competition exists between the different types of alcoholic beverages and takes account of their respective alcoholic strengths; accordingly calls on the Commission and the Council to resume work on this basis immediately;

15. Stresses once again the need to harmonize excise duties on mineral oils in view of the distortion of competition caused by existing disparities; calls on the Council to take a decision on this harmonization as soon as possible, particularly since a proposal for a Directive was submitted to it as early as 1973;

16. Requests the Commission to submit proposals for the harmonization or gradual abolition of the various taxes other than VAT and excise duties affecting intra-Community trade in goods and services;

— *Abolition of fiscal obstacles to the free movement of capital*

17. Points out that differences in the tax systems applicable to capital transactions is one of the obstacles to the free movement of capital and the creation, for example, of a vast European market in securities, which are vital factors in the revival of investment throughout the Community; calls on the Commission to prepare a report on the present scope for abolition of capital duty, given that it is a counter-productive tax in an economic situation where the need for investment is paramount; calls on the Council in this connection, to continue its work on the harmonization of indirect taxation by adopting in particular the proposal for a Directive of 30 April 1976 on indirect taxes on transactions involving securities; requests the Commission to study the question of whether the indirect taxes levied on transactions involving securities should not be abolished instead of harmonizing their structures as provided for in the proposal for a Directive of 30 April 1967;

18. Draws attention to the disadvantages for the free movement of capital within the Community of a lack of harmonization of the bases for the calculation of tax and the rates of corporation tax and systems of deduction at source on dividends and calls on the Commission to work with the authorities of the Member States to coordinate at European level the various incentive schemes adopted by some Member States to encourage investments in securities or bonds and to harmonize the system of withholding taxes deductible from cross-frontier investment income by establishing a common system of imputation credits;

— *Harmonization of the tax burden on undertakings*

19. Believes that the harmonization and reduction of the tax burden on undertakings is of vital importance in ensuring fair conditions of competition between undertakings and in increasing the competitiveness of European industry;

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20. Notes in this connection that
- (a) current rates of corporation tax vary from 37 % in Denmark to 56 % in West Germany,
 - (b) tax credit varies from 100 % in West Germany, where the full amount can be set off, to 15 % in Denmark,
 - (c) the basis for assessing corporation tax varies greatly from one Member State to another as regards the definition and assessment of depreciation, capital gains and losses, provisional reserves and the carry-over of losses;
21. (a) Endorses views expressed in its resolution of 8 May 1979 ⁽¹⁾ on the draft Directive proposals of 1975 ⁽²⁾,
- (b) Believes it would be a mistake to attempt to harmonize corporation tax rates without at the same time harmonizing the bases of assessment
 - (c) Further believes that the most urgent and logical action is to harmonize the corporation tax systems as a step towards freeing capital movements by establishing a common system of imputation credits throughout the Community;
22. Calls on the Commission, furthermore, to examine:
- (a) the system of taxes on industrial and commercial profits in the case of individual undertakings or partnerships which have not opted for corporation tax and the resultant distortion of competition,
 - (b) the consequences and advisability of abolishing or generalizing the wealth tax on companies currently in force in some Member States,
 - (c) the consequences and advisability of harmonizing or abolishing local taxes on undertakings currently in force in some Member States,
 - (d) the economic impact of all taxes on undertakings, and the charging of VAT on transactions between registered traders;
23. With a view to liberalizing capital movements within the Community in the form of dividend payments, believes that the following principles should be observed:
- (a) in each Member State an imputation credit should be made available to shareholders of a company to offset corporation tax that has been deducted within that company's accounts,
 - (b) this imputation credit arising in one Member State should be available to shareholders in all other Member States,
 - (c) no restriction, in the form of an advance corporation tax ('precompte') on the amount of an imputation credit shall be permitted in any Member State on the grounds that the underlying corporation tax was paid in another Member State,
 - (d) the above principles (a), (b) and (c) shall apply in such a way that there is an equitable division of tax revenue between the Member States concerned; as far as possible, tax revenue should not accrue to third Member States through which investment income flows; neither should such Member States be obliged to refund tax which they did not collect in the first place;

⁽¹⁾ OJ No C 140, 5. 6. 1979, p. 19; Nyborg interim report Doc. 104/79.

⁽²⁾ OJ No C 253, 5. 11. 1975, p. 2.

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24. Considers that the Community should seek to enter into a series of treaties for the avoidance of double taxation of investment income with non-member countries which have compatible tax systems. If this is not possible, the Community should promote and coordinate a series of double tax treaties to achieve this effect between Member States and non-member countries with compatible tax systems;

25. Calls on the Commission to carry out a detailed study on the problem of deadlines for payment of VAT for taxable undertakings in order to counter the disadvantages for importing companies and more generally SMUs of certain national regulations;

26. Notes that para-fiscal charges play a large part in the financing of expenditure on social security in some Member States and that the burden of these charges has an adverse effect on the competitiveness of undertakings and more specifically of labour-intensive undertakings; calls on the Commission, therefore, to examine the effects of the highly uneven burden of para-fiscal charges in different Member States on the development of undertakings and the Community economy and to submit any recommendations it may have on this subject;

27. Stresses the need to take more effective action against tax evasion and fraud as a prerequisite for a more just tax system and equal treatment of undertakings within the Community and in regard to multinational companies in third countries; repeats its call and urges the Commission to:

- (a) submit a report on the state of implementation of the Directive on the mutual assistance by the competent authorities of the Member States as soon as possible,
- (b) submit proposals on the practice of transfer pricing, and calls on the Council to:
 - show more determination in its efforts at international level to help combat tax evasion and tax fraud;

28. Regrets that the Council has not yet adopted the tax provisions which would remove the possibility of double taxation in cases of profit adjustment between associated undertakings and asks it to speed up its work in this area with a view to the earliest possible adoption of an act to take immediate effect in all the Member States;

Using the instrument of taxation in the service of the Community

29. Considers that harmonization of taxation should not merely be applied in limited areas but should form part of an overall approach to the implementation of common policies in which the tax aspect is often a vital factor;

30. Believes in this respect that in pursuing coordinated economic policies, the Member States should regard possible changes to rates of VAT, excise or company tax as matters of common interest;

31. Believes in particular that the Member States should, in future, ensure strict coordination of the use of various tax incentive schemes to encourage investment in the form of exemptions under their regional, energy and industrial policies in order to avoid the risks of distortion of competition and inconsistency at European level which would arise from the uncontrolled proliferation of such measures;

32. Calls on the Council, therefore, to adopt the proposal for a Decision on a prior information and consultation procedure for tax matters, which represents a first step towards closer coordination of the fiscal policies of the Member States as an element of their economic policies;

33. Points out the importance of the tax aspect of industrial policy and in this connection:

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- (a) calls on the Council to adopt as soon as possible the two proposals for directives on the tax system applicable to parent companies and subsidiary companies in different Member States and on the common tax system applicable to mergers, hive-offs and transfers of assets among companies in different Member States which have been pending since 1969 and would, at the appropriate time, encourage the grouping of undertakings within the Community in the face of multinational companies in third countries,
 - (b) calls on the Commission to submit and the Council to adopt the requisite measures for a fiscal policy adapted to the specific needs of the SMUs to encourage their formation, development and transfer of ownership; points out that SMU's would particularly benefit in terms of a reduction of their overheads through the abolition of VAT on transactions between registered traders; the administrative burden at present imposed cannot be justified in terms of raising revenue;
34. Points out the disadvantages for the implementation of a Community energy policy of the current disparities between the tax policies of the Member States, particularly as regards excise duties on oil-based products; calls on the Commission, therefore, to submit proposals for harmonization in these areas;
35. Draws the attention of the Commission and the Council also to the need to improve coordination in the use of the tax instrument in such diverse fields as transport policy and the environment and regional policies in order to avoid further divergence in the policies and economies of the Member States;
36. Draws attention in this connection to the importance of harmonizing the method of calculating infrastructure costs in the various transport sectors to prevent unfair competition;

Embarking on a medium-term tax harmonization programme

37. Points out firmly that harmonization of taxation can no longer just be applied in limited areas but carried out in accordance with an ordered programme of successive stages, taking into account the positive or negative financial, economic and social consequences of harmonization for each of the Member States; commends the Commission, in this respect, for having submitted a comprehensive report on the scope for convergence of tax systems in the Community and urges the Commission to respond to this report by submitting, before the second direct elections to the European Parliament, proposals aimed at achieving comprehensive harmonization of taxation in accordance with Articles 95 to 99 and Article 100 of the EEC Treaty by successive stages over a period of about 20 years;
38. Takes the view that, as regards the scope of tax harmonization, priority should be given to the harmonization of indirect taxes, VAT and excise duties, and to company taxation, albeit possibly one by one; while the creation of a system of financial incentives (e.g. the granting of rebates for early collection) applicable to the Community's own revenue would do a great deal to speed up the desired fiscal harmonization;
39. Instructs its President to forward this resolution to the Council and Commission and to the governments and parliaments of the Member States.