

European Parliament: Harmonization of Taxation in the Community I

*Resolution of the European Parliament adopted on 17 November 1983**

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. Point 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 person, 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;

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;

* Doc. 1-903/83 (PE 84.133/fin.). The resolution was motioned by the Committee on Economic and Monetary Affairs (Rapporteur: Mr. Dieter Rogalla). The explanatory statement prepared by the Committee will be reprinted in one of the following issues.

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 Six 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;

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 Fourteenth 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 second-hand goods, and the Tenth Directive on the renting of tangible personal property, these measures being essential to achieve the objective of tax neutrality;

10. Finds that the number of different rates of VAT, currently five, 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 foodstuffs and essential products 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 fifteen 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 different methods of classification currently applicable in the various Member States;

13. Reaffirms¹ 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 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 order to create a genuine common market for alcoholic beverages, it is essential to harmonize the excise structures applicable to these beverages; notes that the most recent attempts within the Council to reach a political agreement on this subject ended in deadlock and calls on the Commission and the Council to resume work on this subject 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. Calls on the Commission to submit proposals for the harmonization or the 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

1. Resolution of the European Parliament of 14 December 1982. OJ No C 13, 17.1.1983, p. 27.

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; 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;

18. Draws attention to the disadvantages for the free movement of capital within the Community of a lack of harmonization of the basis 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;

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, reserves and provisions and the carry-over of losses;

21.

- (a) Endorses views expressed by Mr Nyborg in his interim report of 8 May 1979 on the draft directive proposals COM(75) 392 final of 1975;
- (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;

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 a 'precompte' or 'advance corporation tax' 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 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.

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 improving companies and more generally SMUs of certain national regulations;

26. Notes that parafiscal 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 parafiscal 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;

Using the Instrument of Taxation in the Service of the Community

28. 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;
29. 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;
30. 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;
31. Calls on the Council, therefore, to adopt the proposal for a directive 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;
32. Points out the importance of the tax aspect of industrial policy and in this connection:
- (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 1964 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;
33. 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;

34. 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;

35. 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

36. 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 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 95-99 and Article 100 of the EEC Treaty by successive stages over a period of about 20 years;

37. 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;

38. Instructs its President to forward this resolution to the Council and Commission of the European Communities and to the governments and parliaments of the Member States.

European Parliament: Harmonization of Taxation in the Community II

*Explanatory Statement of the Committee on Economic and Monetary Affairs to the Resolution of the European Parliament of 17 November 1983**

Introduction

1. The harmonization of taxation has been based on Articles 95 to 99 of the EEC Treaty. Substantial progress has been made in the initial stage, particularly as regards the adoption of VAT to replace cumulative multistage taxes.

However, the initial objectives of the Treaty, no discrimination in tax matters and the abolition of double taxation, soon proved inadequate, particularly as regards plans for economic and monetary union, as this presupposes a genuinely unified fiscal area.

It was therefore considered necessary to submit a comprehensive report on the harmonization of taxation in the Community as a follow-up to the detailed report from the Commission to the Council on the scope for convergence of tax systems in the Community,¹ to outline the strategy proposed by the European Parliament in this important field.

There are three essential objectives which will be dealt with in the three main chapters of this report:

- the abolition of tax frontiers, as there are still too many obstacles to the free movement of persons, goods and capital;
- the harmonization of the tax burden on undertakings in the context of the harmonization of conditions of competition within the European Community and the increased competitiveness of undertakings;
- and finally, the use of the instrument of taxation in the service of common policies.

The final chapter will be devoted to the practical aspects of the implementation of a long-term tax harmonization programme.

I. Abolition of Tax Frontiers

2. The abolition of tax frontiers must be the prime objective of tax harmonization in the Community. There can be no talk of a common market in

* Doc. 1-903/83 (PE84.133/fin.). Rapporteur: Mr. Dieter Rogalla.

1. COM(80) 139 final.

the strict, and even the most limited, sense of the term if the number of fiscal obstacles to the free movement of persons, goods and capital remain at their present level.

1. Abolition of Fiscal Obstacles to the Free Movement and the Freedom of Establishment of Persons

3. Taxation is an important factor in European integration and more specifically in the establishment of the internal market, affecting the daily lives of our citizens.

It should be noted, in this connection, that the Council has at last adopted the directive on temporary importation arrangements for certain vehicles and the directive on the final importation of goods in personal luggage. Some of these provisions, like the various measures referred to above, may seem to be matters of secondary concern but are in fact of major economic and psychological importance.

a. Duty-Free Import of Goods Contained in Travellers' Personal Luggage or in Small Postal Parcels

4. Given the limited value of such goods, it would be appropriate to link them with the free movement of persons as travellers or tourists. There should be no obstacles at frontiers for small purchases or small parcels which are part of normal consumer activity. The extension of duty-free categories is of substantial psychological importance in this respect. Exemptions were introduced in 1969 and their value and quantity have been gradually extended.

As a result of the Fifth Directive adopted by the Council on 29 June 1982, the duty-free threshold was increased from 180 to 210 ECU. Taking inflation into account, however, it should be noted that the real value of Community allowances has in fact fallen. At the end of 1981 they represented only 58 % of their value at 1 January 1979.² We can only express regret at the rigidity of the present system which is ill adapted to the constant inflation typical of our economies.³

To avoid distortions and facilitate the movement of 'cultural' goods, we should introduce duty-free imports throughout the Community for books, magazines and newspapers sent by a taxable person having paid the tax in one Member State to a private individual in another Member State.

b. Personal Tax on the Incomes of Frontier Workers.

5. To improve the free movement of workers, we must reduce existing differences between the tax on the incomes of resident and non-resident workers respectively.

² Report on tax-free allowances benefitting individuals (COM (83) 47 final, p. 13.

³ The Commission has recently submitted a proposal for a Sixth Directive amending Council Directive 82/433 of 29.6.1982. This proposal contains, in particular, a multiannual programme for increasing duty-free allowances along the lines set out by the European Parliament.

To this end the Commission has submitted a proposal for a directive on the harmonization of provisions for tax on incomes. The proposal lays down the principle that the frontier worker should be taxed in the Member State in which he is resident. The Member State in which he works must, however, be allowed to levy a tax at source, which should be deductible from the tax levied by the Member State in which the worker is resident. The proposal also advocates the abolition of the principle under which payment of interest, insurance premiums and pension contributions are not eligible for tax relief unless they are made to an organization resident in the Member State levying the tax.

The Council should adopt immediately this proposal for a directive which was submitted to it on 21 December 1979⁴ and which would bring about a significant improvement in the tax situation of frontier workers.

2. Abolition of Fiscal Obstacles to the Free Movement of Goods and Services

A. Harmonization of VAT

6. The adoption by the Council in 1967 of the first two directives permitting the general introduction of VAT throughout the Member States and in 1977 of the Sixth VAT Directive on the uniform basis for the calculation of this tax constituted an important step towards the objective of fiscal neutrality. However, much remains to be done as regards the collection of VAT, the basis for its assessment and the rates currently in force.

a. Harmonization of the Basis of Assessment of VAT

7. An adequate degree of standardization of the basis of assessment of VAT is needed to achieve the objective of fiscal neutrality. The Sixth Directive already contains a number of precise rules on the definition of the taxable person, the establishment of transactions subject to tax and the place where such transactions are carried out and the basis for taxation.

Many problems remain unsolved, however, some of which are considered in a report recently submitted by the Commission on the transitional provisions applicable under the common system of VAT.⁵

— zero rates

Exemptions eligible for deduction or refund of input tax (zero-rating) are applied to export transactions in all Member States. In addition to this, six Member States apply the zero rate for consumption within the country for a number of transactions included on a list which may vary considerably. This practice is applied very widely in the United Kingdom and Ireland.

4. COM (79) 737 final and OJ No. C 21 of 26.1.1980, p. 6.

5. COM (82) 885 final.

If we hope to introduce a rational system of VAT for the Community, we must ensure the gradual abolition of these zero rates. Furthermore, the provision for the application of zero rates is included among the transitional provisions listed under Article 28 of the Sixth Directive. As is shown in the recent Commission report on this subject,⁶ the existence of zero rates creates many disadvantages, such as a corresponding increase in the VAT burden on sectors subject to tax and higher administrative costs, and is a factor in weakening the basis concept of own resources.

We must also reconsider the list of derogations authorized by Article 28 of the Sixth Directive with a view to imposing limits. The transactions made exempt could disturb the free play of competition.

— *tax exemption*

Whilst the financial impact of some of the remaining exemptions from VAT is negligible, others, such as those affecting transactions in gold, the transport of persons or travel agents, lead to distortion of competition within the EEC. The Commission should submit proposals on this subject and on a number of other transitional provisions dealt with in the above-mentioned report.⁷

— *system applicable to works of art and second-hand goods*

On 6 January 1978, the Commission submitted a proposal for a Seventh Directive applicable to works of art, collectors' items and antiques and used goods. This proposal, which was adopted by the European Parliament,⁸ takes account of the special nature of works of art and second-hand goods deriving from their economic cycle and ultimate use. It is regrettable that the Council has not yet adopted this proposal for a Seventh Directive.

— *renting of tangible personal property*

A proposal for a Tenth Directive adopted by the European Parliament suggests that in order to avoid distortion of competition in the renting of tangible personal property, the place where the property is used should be regarded as the place where the service is rendered. This proposal is still before the Council.

b. Harmonization of VAT Rates

8. The harmonization of VAT rates in the Community will be a necessary but very difficult step on the road to the harmonization of taxation. Harmonization of VAT rates will begin more specifically with the harmonization of the number of rates and their respective levels and scope.

— *harmonization of the number of rates*

9. There is a general tendency to reduce the number of VAT rates. The number of rates, which in 1980 ranged from a single rate in Denmark to eight in Italy, has

6. COM (82) 885 final.

7. COM (82) 885 final.

8. OJ. No. C93 of 9.4.1979.

been reduced to between 1 and 4, since on 1 January 1981 Italy cut its 4 reduced rates at 3 %, 6 %, 9 % and 12 % to 2 reduced rates at 2 % and 8 %. France and Belgium have abolished the intermediate rate and Ireland and the United Kingdom no longer have an increased rate. Even the present four rates should be further reduced as they are a major cause of distortion. We must also add to the four rates mentioned above the zero rates involving exemptions with refund of input tax which are widely used in Ireland and the United Kingdom.

Reduced rates and zero rates apply to a range of products and services which are regarded as essential, but the number and type of these products vary from one Member State to another and this leads to substantial distortion of competition between substitute products.

The same applies at the other end of the range to the increased rates which are supposedly applied to products regarded as luxuries whose definition and scope vary just as widely from country to country.

As the Commission points out,⁹ a single-rate system is preferable in terms of fiscal neutrality but, from a social point of view and assuming equal levels of tax revenue, a multiple-rate system has the advantage of being less regressive in relation to income. It seems, however, that a realistic programme for harmonization in this area should aim to introduce a dual-rate system, i.e. a reduced rate for foodstuffs and a standard rate for other products and all services.

— *harmonization of rate levels*

10. The adverse effects on competition caused by differences in the number of rates are aggravated by the diversity of these rates. Far from decreasing, the difference between reduced and standard rates, for example, is continually on the increase. Rate levels have tended to increase in six of the nine Member States over the past 14 years.¹⁰

In its report,¹¹ the Commission proposes that the level of rates in a dual-rate system should fall within two brackets, 15 % to 17 % for the standard rate and 3 % to 5 % for the reduced rate. This could only be brought about gradually as any changes in the various national VAT rates are likely to have repercussions at budgetary, economic and social level. Any reduction or increase in revenue from VAT is likely to have an effect on the level of consumer prices, wages, the volume of consumption, investments, industrial output and exports. As the Commission points out, however, the fact that the United Kingdom increased its VAT rate from 8 % to 15 % in 1979 shows that even quite substantial changes are possible.

— *scope of the various rates*

11. Pending the reduction in the number of rates, it should be noted that those countries which apply identical rates have very different classification systems. Consequently, the harmonization and reduction of the number of rates goes hand in hand with the harmonization of the scope of each of the different rates.

9. COM(80) 139 final, p. 75.

10. Ibid. p. 35.

11. COM(80) 139 final, p. 75.

Generally speaking, the VAT rate expressed as a percentage of final consumption varies quite considerably from one Member State to another, even though the wide gap separating the United Kingdom from the remaining Member States in this field has narrowed since 1979.

It should also be noted that the Commission's report gives no assessment of the situation in Greece, Portugal or Spain.

In the light of the memorandum from the Greek Government, however, the Commission has decided to draw up a precise timetable in conjunction with the Greek authorities for the introduction of tax reforms and the elimination of existing breaches.

B. Harmonization of Excise Duties

a. excise duty on manufactured tobacco

12. Harmonization in this area was begun in 1972. In the first directive of 19 December 1972, the Council laid down the principle of harmonization of excise duties on cigarettes.

The approach adopted was to harmonize the relation between proportional and specific excise duties at successive stages in the process of harmonization with a gradual reduction in the bracket covering the value of this relation. Following two stages of harmonization, the Commission's proposal for a third stage failed to win the approval of Parliament even after the Commission had carried out, at Parliament's request, a study on various different approaches.

On 14 December 1982, Parliament rejected this approach and the proposal for a third stage, stating that an attempt to harmonize the ad valorem tax element of retail prices has a more neutral impact on competition. By letter of 28 March 1983, however, the Commission informed Parliament that it would not withdraw its proposal.

b. excise duties on alcoholic drinks

13. It is difficult to talk in terms of a European market for alcoholic beverages at present. The rates levied on different types of alcoholic beverages vary widely according to the traditions and interests of the national industries and this is used as a means of encouraging or discouraging consumption.

In 1972, the Commission submitted a whole series of proposals for directives on excise duties on alcoholic beverages and particularly on alcohols, wines, beer and mixed beverages.

Discussions of these proposals in the Council have produced no results. A final attempt to reach a compromise within the Council in September 1982 ended in failure. Since then discussions on this subject have been suspended pending judgments by the Court of Justice on these matters.¹²

12. See also the draft report by Mr. Hopper on this subject which is before the Committee on Economic and Monetary Affairs.

c. excise duties on mineral oils

14. The effect of excise duties on mineral oils on conditions of competition is obvious, particularly since prices have risen considerably following the oil crises. One major aspect to be taken into consideration concerns exemptions and reduced rates for specific uses.

The Commission submitted a proposal for a directive on the harmonization of excise structures as early as 1973.¹³ However, the Council has not yet taken a decision. Recently, in a resolution adopted on 11 March 1983, the European Parliament again urged the Council to take a decision soon.

d. other taxes

15. There are far too many different taxes in the Community and some of them affect the free movement of goods and services.

One obvious example is found in the various registration taxes applied to motor vehicles, in particular the differential tax on vehicles of over 16 CV in France, which is designed to hit those with high incomes and to encourage energy savings but also indirectly to close the French market to types of vehicle not produced in France. Whatever the aim of this tax may be, the method used is a poor one because it leads to a covert form of protectionism.

Greece also applies a type of registration tax called 'Isfora' and a consumer tax calculated on the basis of the engine rating and the value of the vehicle. The basis for calculation of this tax also varies according to whether the vehicle was imported or assembled in Greece.¹⁴ These registration taxes are obstacles to the achievement of a single internal market for motor vehicles.

Finally, service activities are also subject to various taxes. Taxes are levied on insurance premiums in most Member States. It will not be possible to think in terms of a common market in insurance until these taxes have been harmonized.

3. Free Movement of Capital

16. The differences in the tax systems applicable to various capital transactions in the EEC constitute one of the obstacles to the free movement of capital which is a vital factor in the promotion of new investments.

a. Indirect Taxation

17. As regards indirect taxes, the Council adopted on 17 July 1969¹⁵ a directive concerning indirect taxes on the raising of capital.

This directive and two others adopted on 9 April 1973 and 7 November 1974

13. OJ No. C 92 of 31 October 1973, p. 36.

14. Written Question No. 683/82 by Mr. von Wogau — OJ No. C 271 of 14 October 1982.

15. OJ No. L 249 of 3 October 1969, pp. 25 et seq.

16. OJ No. L 103 of 18 April 1973, p. 13 and OJ No. L 303 of 13 November 1974.

establish the terms for the harmonization of the structure of capital duty and of the common rates of this duty (not exceeding 2% and not less than 1% with facilities for a 50% reduction for restructuring operations — Article 1(a) — Directive of 9 April 1973).

The directive of 17 July 1969 also recommended that stamp duty be abolished. To this end, the Commission submitted a proposal for a directive concerning indirect taxes on transactions in securities in 1976.¹⁷

The Council has not yet adopted this directive although these taxes currently applied by the Member States lead to double taxation and discrimination likely to create major deflections in the movement of capital. As regards the structure of the tax, one Member State does not levy a tax (Luxembourg), some Member States levy a single tax and others levy one tax on the assignment of securities and another on their acquisition, whilst others levy a tax on the registration of registered securities (United Kingdom and Ireland). As regards the level of the tax, two Member States levy a high rate (2%) whilst the remaining Member States apply a much lower rate (0.1% to 0.7%). Exemptions vary from country to country.

The proposal for a directive advocates a double tax on acquisition and assignment to ensure fair distribution of the tax burden between the assignee and the transferor. As regards the rates, the proposal does not lay down a common rate but does establish maximum rates (0.3% for bonds to 0.6% for other securities) and a list of exemptions.

In view of the adverse effect of these taxes on the effective management of the market in securities and their relatively low fiscal yield, the European Parliament voted in favour of their abolition.¹⁸ This wish was reiterated more recently during the vote on the report by Mr. Collomb on the creation of a European stock exchange.¹⁹

b. Direct Taxation

18. Attention should be drawn at this point²⁰ to the beneficial effects which harmonization of the basis of assessment and rates of corporation tax on dividends within the Community could have on the free movement of capital. The same applies to coordination at European level of various incentive schemes adopted by some Member States to encourage investment in securities or in the form of bonds.

The Commission stressed this need in its recent communication on financial integration.²¹

17. Doc. 62/76 of 30 April 1976.

18. Dykes report — Doc. 315/76.

19. Doc. 1-290/81.

20. See Part II.

21. Com(83) 207 final, p. 12.

II. Harmonization of the Tax Burden on Undertakings

19. Inadequate harmonization of taxation can create an obstacle to the free movement of persons, goods and capital, thereby indirectly delaying the process of economic integration within the Community.

Inadequate harmonization of taxation can also result in an uneven distribution of the tax burden on undertakings. This unsatisfactory tax situation distorts the conditions for competition within the Community and reduces our chances of maintaining the competitiveness of our economy.

We will consider the harmonization of the tax burden on undertakings under the three headings of the harmonization of direct taxation, of indirect taxation and of combatting fraud and tax evasion.

I. Harmonization of Direct Taxation

a. Harmonization of Corporation Tax

20. The current system of corporation tax within the Community displays three main areas of divergence, i.e. the system of taxation itself, the rates of corporation tax and the tax credit to be granted to the shareholder.

— *system of taxation*

The great majority of Member States currently apply the imputation system (tax credit). This arrangement, which is the outcome of a gradual development, should facilitate the adoption of this system by Luxembourg and the Netherlands in the longer term in place of the traditional system currently in use and which is the cause of double taxation.

The co-existence of two diametrically opposed systems of corporation tax has a very damaging effect on the Community economy as a whole. As a result, a parent company established in a country which uses the imputation system will hesitate to set up a subsidiary in a Member State where the traditional system is applied since in this case tax on the profits of the subsidiary company would not entitle the shareholders of the parent company to tax credit.

The lack of harmonization of the systems of corporation tax is an obstacle to the flow of investment within the Community. Furthermore, the traditional system encourages undertakings to secure financing in the form of loans rather than to raise for new capital as distributed profits are heavily taxed. Generally speaking, the co-existence of these two systems means that undertakings operate under unequal conditions and this is extremely damaging to the interpenetration of the national economies.

— *rate of corporation tax*

21. The rates of corporation tax currently vary between 56% in Germany (for non-distributed profits) and 37% in Denmark and 36.25% in Italy.

The Commission's proposal for a directive suggests a range between 45 % and 55 %.²²

— *rate of tax credit*

Current disparities are particularly noticeable in terms of tax credit, which varies between 100 % of the tax levied in the Federal Republic of Germany (total imputation system) and 15 % in Denmark. Here again, the Commission has proposed a range of between 45 % and 55 % of the tax levied. In the case of dividends distributed outside the territory of the Member State, the Commission has proposed a single-rate deduction at source of 25 % (rates for non-residents currently vary between 20 % and 30 %).

In its resolution of 7 May 1979,²³ the European Parliament called on the Commission to harmonize the basis of assessment of the tax as well as the tax system and the rates applicable which, in its opinion is a prerequisite for achieving the objective of fiscal neutrality.

— *harmonization of the basis of assessment of corporation tax*

22. The harmonization of corporation tax presupposes an approximation of the legislation of the Member States in several respects. There are many differences between the present systems, a few examples of which are given here.

The definition of standard depreciation and, more specifically, the definition of the assets which can be written off, the value to be written off and the write-off period, vary from one Member State to another.

The tax assessment of capital gains and losses varies from one Member State to another. Some regard them as a part of normal profits whilst others take the opposite view.

The same applies to the evaluation of assets and liabilities, particularly as regards stock and allowance for the effects of inflation. If inflation is not taken into account, the taxable profits will include certain non-existent profits.

Finally there are different provisions for the creation of reserves and funds and for the carry-forward of losses. Some legislation makes more generous allowance than others in respect of the period during which a loss in one financial year can be offset using profits from subsequent financial years. The same applies to tax exemptions for reserves and funds.

Adoption of the Commission proposal presupposes fairly substantial changes in the legislation of the Member States. It would involve, in particular, an increase in the rate of corporation tax, currently fixed at 40 % in Luxembourg, Denmark and Italy. The Federal Republic of Germany would have to abandon its dual-rate system and the Netherlands would seek compensation.

As the Commission points out in its report,²⁴ however, the Member States should be able to adapt to this new regulation given the limited impact of corporation tax on tax revenue:

22. COM(80) 139 final, p. 63.

23. Interim report by Mr. Nyborg — Doc. 104/79.

24. COM(80) 139 final, p. 93.

Corporation tax

	a	b
Belgium	6.15	2.70
FRG	4.13	1.64
Denmark	3.08	1.31
France	5.40	2.14
Ireland	4.11	1.44
Italy	2.37	0.98
Luxembourg	13.41	6.67
Netherlands	6.65	3.13
UK	5.58	2.05

a. percentage of various levies in the total receipts from taxes.

b. percentage of various levies in the GDP (at market prices) and facilities for compensation in addition to the exemptions listed under Article 3 of the proposal.

b. Tax on Industrial and Commercial Profits

23. The profits of individual undertakings or partnerships which do not opt for corporation tax are subject to income tax.

The differences in the rates applicable to these industrial and commercial profits and the various flat-rate schemes applicable to individual undertakings or SMUs result in distortions of competition. For these reasons, a minimum degree of harmonization would also be required in this area.

c. Wealth Tax

24. Only three Member States currently apply a wealth tax affecting legal persons: the Federal Republic of Germany, Luxembourg and France. It would therefore be appropriate for the Commission to examine the impact of this tax on undertakings in the countries concerned and to express an opinion on the maintenance, abolition or generalization of this tax.

d. Local Taxes

25. In three Member States, undertakings are subject to local taxes, such as the business tax (*taxe professionnelle*) in France, the trade tax (*Gewerbesteuer*) in Germany and the communal trade tax (*impôt commercial communal*) in Luxembourg. The existence of these taxes represents a distortion of competition for undertakings in these Member States as compared with those in other Member States. These taxes are based on the rental value of the tangible fixed assets used in a company's commercial activities and on a proportion of the wages paid by the undertaking and in some cases they cause severe handicaps for undertaking Harmonization in this area is therefore essential.²⁵

25. In 1977, these three taxes represented 2.6%, 5.5% and 3.9% respectively of the total receipts of taxes in the three Member States in question.

2. Harmonization of Indirect Taxation

26. Since the problems of harmonizing the basis of assessment and rates of VAT have been dealt with in the previous section, we will concern ourselves here solely with an examination of ways of simplifying arrangements for collecting VAT and of the special scheme for small undertakings.

a. Simplification and Harmonization of Arrangements for Collecting VAT

VAT is a standard tax throughout the Community. It should be collected on the basis of standard arrangements. In other words, the tax payable on imports would no longer be demanded the moment the goods enter the country.

On 5 July 1982, the Commission submitted to the Council a proposal for a Fourteenth Directive on deferred payment of the value added tax payable by undertakings subject to this tax on imports of goods from other Member States.

The Internal Market Delegation of the Committee on Economic and Monetary Affairs often referred to this proposal during its visits to the capital cities of Europe. The objections which have been raised to this new method of collecting VAT, particularly as regards the reallocation of work between the VAT authorities and the customs authorities and the fall in revenue during the financial year in which the system enters into force, should be removed in view of the administrative advantages and benefits which this new procedure offers both businessmen and the European economy as a whole.²⁶

The Commission should also look into the periods for payment of VAT, which vary from one Member State to another. In Denmark, the period is shorter for imports than for national transactions (this matter was recently referred to the Court of Justice). Deadlines for payment of VAT are also a sensitive point for SMUs which, in some Member States, are required to pay VAT as soon as the invoice is drawn up, a situation which often places a great strain on their cash flow. The Commission should therefore submit proposals for the harmonization of deadlines for payment of VAT within the Community.

In its Communication to the Council of 30 July 1975, the Commission stated that the growing popularity of mail order selling to non-taxable persons across borders was significant in that it offered consumers a wider choice and also helped to reduce prices. The Commission noted that this type of selling was faced with many fiscal obstacles. It carried out studies into ways of simplifying methods of collecting the VAT applicable to this type of selling and should be submitting proposals to this end.²⁷

26. Rogalla report on the Fourteenth Directive on the harmonization of the laws of the Member States relating to turnover taxes (Doc. I-976/82).

27. Programme for the simplification of procedures applicable to the collection of VAT, OJ No. C 244, p. 4.

b. Special Scheme for Small Undertakings

27. Article 24 of the Sixth Directive provides for exemption from tax for taxal persons whose annual turnover is lower than the equivalent in national currency 5,000 European units of account. This threshold, which was already too low wh the Sixth Directive was adopted, should be revised to allow for inflation.

In accordance with Article 24(8) the Commission will be submitting a report the Council on the application of this special scheme on 1 January 1984. TI report is to contain proposals on improvements to be made to the special schei for small undertakings, the adaptation of national systems as regards exemptic and the requisite adaptation of the limit of 5000 EUA.

On 1 January 1984, the Commission will also be submitting to the Council n proposals concerning the application of VAT to transactions in respect agricultural products and services in accordance with Article 25(11).

3. Fiscal and Parafiscal Charges

28. Mention must also be made of the financing of social security wh represents a substantial proportion of the public finances of all the Member Stat Social security is financed either by taxation as in Denmark, or by parafisc charges, as in France.

The Member States can be divided into three groups:

- Denmark: social security contributions form a tiny proportion of the tc amount levied, i.e. 1.5 %;
- two countries, the United Kingdom and Ireland, collect less than 20 % of th total levy in the form of social security contributions;
- the six remaining Member States, Belgium, Luxembourg, the Netherlan Italy, Germany and France: social security contributions represent 30 % more of the total amount levied.

Countries which operate high parafiscal charges experience difficulties international trade as these contributions affect export prices.

Parafiscal charges also place a particularly heavy burden on labour-intens industries and this constitutes a serious handicap in the light of fierce competit from industries in countries which operate very low wage rates and fiscal char

The Commission therefore must not fail to take this vital aspect of harmonization into account and should make the necessary recommendations the basis of the studies it has carried out in this area.²⁸

4. Combating Fraud and Tax Evasion

29. The harmonization of the tax burden on undertakings presupposes that st measures will be taken to ensure equal treatment of undertakings in the field taxation. This means that effective measures must be taken throughout

28. Studies by the FAST Section which is responsible for scientific and technological forecasts.

Community to combat fraud and tax evasion to ensure equal treatment for undertakings within the Community and in relation to multinational undertakings in third countries.

a. Mutual Assistance between Tax Authorities in the Community

The 1977 directive concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation, which was extended to cover VAT, has been in force for several years. The Commission should therefore draw up a report on the progress achieved in the implementation of this directive and on the obstacles encountered.

It should also assess, in accordance with Article 10 of this directive, the exchange of experience between the authorities of the Member States on transfer pricing and the advisability of formulating measures relating to the practice of transfer pricing. Parliament has already expressed this wish on a number of occasions.

b. Combating Tax Fraud at International Level

The Commission should also respond to the European Parliament's repeated request that it should show more determination than in the past in establishing fairer conditions of competition at international level by tackling international tax evasions and abolishing tax havens and flags of convenience.

III. Using the Instrument of Taxation in the Service of the Community

30. Harmonization of taxation in the Community cannot consist solely of issuing one directive after another but must be used more generally for the implementation of common policies where the tax aspect is often a vital factor.

We will restrict ourselves here to a few details on the essential tax aspects of general economic and sectoral policies.

1. Tax Aspects of Economic Policy

The instrument of taxation is a vital tool in economic policy as regards both the cyclical and structural aspects.

a. The Instrument of Taxation in the Services of Cyclical Policy

A reduction in the rate of VAT can be used to stimulate production by increasing consumption whilst an increase in VAT can be used to reduce consumption or increase budgetary revenue. In fact the Member States have not made frequent use

of VAT as an instrument of cyclical policy over the past few years. Use of this instrument is a delicate matter as the removal of the tax burden is not necessarily reflected in prices and, more generally, increases or reductions in VAT rates merely lead ultimately to artificial increases in profit margins.

It seems appropriate, however, that the budgetary or social considerations peculiar to one Member State which cause it to raise or lower its VAT rates should, in future, take second place to the more general conditions vital to the smooth and efficient running of the Community economy.

b. The Instrument of Taxation at the Service of Medium-Term Policy

The current period of crisis has been characterized in particular by the inordinate proliferation of tax incentive schemes adopted by the authorities of the Member States in the context of various policies, e.g. regional, energy and industrial policies.

These measures, particularly those designed to promote investment, take various forms such as a flat-rate deduction from the tax assessment basis, tax exemption on certain premiums paid by the state, tax immunity for the profits of certain undertakings or the creation of tax-free reserves etc.

The proliferation of these schemes brings with it the risk of distortion of competition, lack of transparency and often inconsistency.

A determined effort must be made to ensure convergence of the economic policy, both cyclical and structural, of the Member States and the need applied equally to their fiscal policies.

c. Strengthening Consultation Procedures

The Commission has recently submitted a proposal for a decision to the Council establishing a prior information and consultation procedure for tax matters as this has been adopted by the European Parliament. The Member States must take the interests of the Community and the need for harmonization of taxation into account as far as possible when introducing tax measures.

Nonetheless, this procedure has been left to the discretion of the Member States and no compulsion is involved. The Commission must therefore continue to place emphasis on the coordination of the fiscal policies pursued by the Member States as an essential factor of their economic policy.

2. Tax Aspects of Sectoral Policies

31. The same concern for coordination and consistency of fiscal measures must also apply to the implementation of common sectoral policies in the Community. We will merely outline their fiscal content at this point.

a. Industrial Policy

Taxation can play a vital part in the success of an industrial policy, whether in encouraging a particular company structure or favouring one particular sector, by applying or abolishing taxes and regulating investment, depreciation and profits.

In this way, the tax system can facilitate or obstruct the expansion, merging or optimum distribution of undertakings throughout the Community. Mergers may prove necessary in some areas of high technology to cope with competition from the major multinational companies. The Commission submitted two proposals for directives to this end as early as 1969.

The first concerns the tax arrangements applicable to parent companies with subsidiaries in different Member States. The principle on which this directive is based is that the parent company should not pay tax on the dividends of the subsidiary and that these dividends are exempt from deductions at source. In this way the proposal certainly goes further than the current bilateral agreements in abolishing double taxation on dividends.

The second proposal concerns the common tax system applicable to mergers, hive-offs and transfers of assets between companies in different Member States. These transactions usually involve a heavy tax burden in view of the capital gains, the recovery of depreciation and the cancellation of the abatement on the value of stocks and tax-free reserves. The proposal therefore stipulates that tax will be deferred where the counterpart consists entirely, or almost entirely, of shares in the company receiving the transfer and that assets will be transferred to this company at the value entered in the tax accounts of the holder company.

In its resolution of 17 December 1973 on industrial policy, the Council stressed the need to abolish fiscal barriers to closer relations between undertakings. It is therefore deplorable that the Council has not yet adopted these two proposals which are still of current interest.

The instrument of taxation can also play an important part in promoting SMUs and the craft industries. The opening conference in the year of the SMUs and the craft industries (1983) outlined a fiscal policy favouring the development of the SMUs, stating that a fiscal environment adapted to the specific nature of the SMU is one of the vital conditions for their integration in the Community and their development.

b. Energy Policy

Turning our attention solely to the tax aspects of a European energy policy, it is obvious that disparities between the fiscal policies currently pursued by the Member States have an aggravating influence on the distortions affecting the market and hamper the implementation of a genuine common energy policy.

As we have already pointed out, the level and development of the excise duties applicable to various categories of oil-based products vary considerably from one Member State to another, particularly as regards heavy fuels which are exempt in some countries but subject to high excise duties in others.

We must also bear in mind the substantial number of subsidies and exemptions

granted in some Member States to various categories of users, such as aviation, public transport, refineries and the petrochemical industry for internal consumption.²⁹

The comments made above on industrial policy or energy policy could also apply to other policies: transport policy, environmental policy and regional policy, whose implementation at Community level presupposes coordinated application of the instrument of taxation.

IV. Embarking on a Tax Harmonization Programme

32. The European Parliament has not once so far turned its attention to the question of harmonizing taxation in the Community, save when replying to the Council on specific issues. We need only think of the classical distinction between direct and indirect taxation, of Member States' sovereignty in the field of taxation or the financial implications of harmonization for individual Member States. Studies carried out so far have not really got down to the essentials of harmonization in the Community. It is up to the European Parliament to devise a method of bringing about true harmonization of taxation in the Community, leaving aside legal wrangles and the finer points of fiscal policy.

1. Priorities and Scope

Whilst the ideal solution would be to introduce harmonization covering both direct and indirect taxation, it would nonetheless seem more realistic to restrict harmonization measures to three areas. The first relates to the gradual abolition of fiscal obstacles to the free movement of persons, goods, services and capital. It will involve in particular the complete harmonization of the basis of assessment of VAT, reduction of the number of VAT rates and further work on the harmonization of excise duties (structures and rates).

The second area will be primarily concerned with the harmonization of the basis of assessment and the rates of corporation tax, to ensure equal conditions of competition between companies. The third area concerns better coordination in the use of the instrument of taxation in the service of common policies.

As the Commission points out in the conclusions to its report,³⁰ it is obvious that unless substantial headway is made in the construction of Europe, the Member States will never tolerate the numerous constraints imposed by tax harmonization. Progress in the construction of Europe and progress with the harmonization of taxation must go hand in hand.

29. In particular subsidies on energy consumption granted to Dutch horticulturalists. The European Parliament has repeatedly called for their abolition.

30. COM(80) 139 final, p. 99.

2. Thresholds and Stages in Harmonization

The Commission feels that 'the magnitude of the task and the present uncertainty as to how fast the Community can progress towards economic and monetary union rule out the possibility of fixing any definite deadlines.'³¹ We cannot accept this minimalist approach.

On the contrary, on the basis of Commission proposals on the abolition of zero rates, the reduction of the number or range of VAT rates or the harmonization of excise duties, the Council must proceed with controlled harmonization in stages which are as progressive and effective as possible, taking account of the fiscal constraints imposed on the Member States.

3. Convergence Clause

The main obstacle to tax harmonization is a political and administrative one. The Member States must learn to take the Community interest genuinely and progressively into account. The adoption by the Council of the prior consultation procedure and adherence to this procedure by the Member States is a vital factor in this connection. The implementation of this procedure will involve the application of a convergence clause by the Member States without which no programme of tax harmonization can hope to succeed. Despite the work carried out on the harmonization of taxation in the Community, it must be said that the differences between the rate of growth and disparities in the total amounts levied by the Member States, although moving in the same direction, have increased significantly in the past twenty years. The difference between fiscal and para-fiscal pressure on the GDP increased in the period 1965 to 1977. Whereas at one time only 8 points separated the two Member States at opposite ends of the fiscal pressure scale (27 % in Italy and 35 % in the Netherlands) in 1979 these same two Member States were separated by 17 points (30 % and 47.5 % respectively).

Similarly, the disparity between the relative importance of the main sources of fiscal revenue has increased rather than decreased.

Excessive disparities in fiscal and para-fiscal pressures can have damaging effects on the options open to producers, dealer and consumers and, in the long term, on the degree of economic integration within the Community.

31. COM(80) 139 final, p. 100.