

## FAQ

### **What is the European Commission actually proposing as regards qualified majority voting on tax issues?**

The Commission's proposals are pretty modest. Specifically, they envisage QMV replacing the unanimity rule in just three areas, and on condition that there is a direct link with the operation of the single market. On indirect taxation, the aim is at least to make it possible to modernise and simplify existing laws - many of the rules date back to the 1970s. On the tax base for companies, QMV should make it easier to dismantle tax barriers that prevent the proper operation of the single market. And in the area of administrative cooperation and the fight against fraud and tax evasion, it should allow better coordination of Member States' activities, and greater effectiveness. Furthermore, QMV should also be the rule for decisions regarding environmental taxation.

### **Has the Convention made any progress in this area?**

On tax issues the draft constitutional treaty submitted by the Convention is disappointing. A handful of Member States dug their heels in, ensuring that unanimity remains the rule for tax-related issues. In practice, in a 25-member EU, that would probably mean total immobility on tax. This is a pity, all the more so since the preparatory work by the economic governance working group chaired by Klaus Hänsch made it clear that the great majority of Convention members from across the political spectrum agreed that a move towards QMV was necessary. This means taxation has to be discussed again during the ongoing Intergovernmental Conference (IGC).

### **How is the Commission planning to get its own arguments across?**

The Commission is making a great effort to get its views across to the public and press of certain Member States, and in particular to correct a number of misapprehensions about its position. In some Member States the issue of QMV in the tax field is presented in far too simplistic a way, giving the impression that the Commission wants to harmonise corporation tax or raise tax levels throughout Europe to finance the construction of a "superstate". There is no truth in these assertions. Basing a discussion on false premises gets in the way of a proper debate on the issues.

### **How would a move to qualified majority voting in the tax field benefit taxpayers?**

If qualified majority voting were the basis for measures designed to eliminate tax obstacles for taxpayers caused by the interaction between Member States' national tax systems, that would surely enable taxpayers to benefit more fully from the Single Market.

Enlargement will present significant economic opportunities in the form of a larger internal market. But it also means there will be even more situations where individuals and companies encounter problems of double taxation, complexity and compliance costs when they operate across national borders.

The problems are caused by the mismatch between the national tax systems. Even in the fields of VAT and excise, where a large measure of harmonisation has been achieved, there are

differences of interpretation and exceptions from the normal rules for different Member States that lead to enormous problems for taxpayers.

The Commission has made several legislative proposals to resolve these tax obstacle problems, and has plans for more. But how can we possibly hope to achieve agreement on any proposals if the twenty five or more EU Member States can exercise the power of veto freely? Even at present, with only fifteen Member States, agreement on any proposal is extremely difficult to achieve because of the unanimity rule.

### **And how could a move to qualified majority voting in the tax field assist Member States' tax administrations?**

It is difficult to see how Member States' tax administrations can operate their tax systems effectively in a globalised environment with more cross-border income flows unless they improve their mutual assistance and co-operation arrangements. This would also allow them to tackle the problems they have with increasing tax evasion and fraud. But the Commission even runs into difficulty in achieving agreement on proposals for increased cooperation that would safeguard Member States' tax revenues, because of the unanimity rule. Again the Member States should consider very carefully over the next few weeks whether it really is in their interests to continue with the unanimity rule in the tax cooperation area.

### **Wouldn't QMV on tax lead to tax harmonisation in the EU?**

Broadly speaking the Commission has no desire to harmonise the Member States' tax systems. There are many areas of tax policy in which harmonisation is neither necessary nor even desirable, because of the wide differences between each country's tax system and their individual national preferences.

However, there are areas where it may be necessary to make an exception to this rule. In the field of indirect taxation there needs to be a high degree of harmonisation, as the Treaty explicitly recognises, since indirect taxes can constitute an immediate barrier to the free movement of goods, or freedom to provide services, in a single market. They can also distort competition. Again, it is up to Member States to decide on the level of business taxation and the Commission has no plans for setting tax rates across the Community. It does, however, believe that laying down a consolidated base for taxing companies across all their activities within the EU would make corporate tax regimes simpler, more transparent and more effective and reduce compliance costs.

The differences between tax systems are not a problem as such. The real difficulties arise from incompatibilities, leading to double taxation, distortion of competition and so on. Furthermore, some Member States' rules are incompatible with the European Treaties, which can give rise to discriminatory treatment. From the business standpoint the tax barriers the Commission is trying to eliminate are very real. For instance, we are keen to modernise European merger rules, since many companies attract double taxation in the course of a merger. This is what we mean when we say that the Member States' tax systems need to be better coordinated - not harmonised! - and that in turn requires QMV. In a 25-member EU the unanimity rule would be a recipe for paralysis.

### **What are the views of European companies on the tax issue?**

The Commission has canvassed the views of a large number of businesses both at a European conference on company taxation in April 2002 and through various public consultations. The companies' standpoint is basically quite straightforward: they want to be able to operate throughout the single market without too many obstacles being placed in their way. Excessive red tape or double taxation on foreign transactions are real problems. In response to a wide-ranging survey, 77% of respondents said they would like to see national tax systems aligned. This is not something we can simply ignore. The Commission does its best to identify the main problems and propose solutions to the European Council. Some 20 proposals for directives or regulations are currently stalled in the Council; some have been "sleeping" there for years. VAT - a source of serious problems for some companies - is particularly affected. Unless the IGC can make real progress towards QMV it is unlikely that many of these proposals will ever be adopted.

### **Can you estimate the cost of "non-alignment"?**

It's difficult to come up with an overall figure, though estimates for specific items do exist. Various studies have put tax compliance costs for business at around 2%-4% of the total amount of company tax take, in other words somewhere between €4.3 billion and €8.6 billion for the EU-15. A substantial part of this is undoubtedly due to incompatibilities between Member States' tax systems. Even more significant, though not much discussed, is tax fraud, and VAT fraud in particular. Carousel fraud and other VAT scams are thought to cost some Member States up to 10% of their VAT revenue. The average loss per fraud is €10 million but cases "costing" from €100 million to €400 million have been recorded. It is obviously in the interests of all honest taxpayers, therefore, to have better controls.

### **What will happen if Member States do not agree at the IGC to give up the veto in the tax field?**

It will be a great pity if Member States do not take this opportunity to ensure that taxation rules in the enlarged EU contribute to EU competitiveness, investment and job creation and to ensuring that consumers reap the benefits of wider choice and lower prices.