EUROPEAN COMMISSION

MEMO

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Questions and Answers on the Tax Package

Why did the European Commission adopt a new Tax Package today?

The coronavirus pandemic has meant that it is more important than ever for Member States to have secure tax revenues, so they can invest in the people and businesses who need it most. At the same time, we need to remove unnecessary tax obstacles and make it easier for EU companies to innovate, invest and grow.

To achieve this, we need fair, efficient and sustainable taxation. Today's Tax Package, which is made up of three separate but related initiatives, promotes measures to reinforce the fight against tax abuse and to help tax administrations keep pace with a constantly evolving economy, while easing administrative burdens for citizens and companies. It also ensures improved cooperation with non-EU countries, and strengthens our support to developing countries.

What are the main problems the Tax Package addresses?

Today's Tax Package aims to make taxation simpler, fairer and better adapted to the modern world. Amongst the problems it seeks to address are:

- *Complexity and administrative burden, which hampers businesses in the EU*

Young and innovative businesses struggle with administrative complexity and with high tax compliance costs. Tax compliance costs for SMEs can be as high as 30% of taxes paid. Moreover, dealing with 27 different tax systems creates uncertainty for honest taxpayers, who can get overwhelmed and inadvertently violate the rules. A simpler and more modern tax environment will help compliant businesses reap the benefits of the Single Market and sustain economic growth in the EU.

- *Tax abuse and harmful tax competition*

Much has been done at EU level in recent years to improve tax good governance and clamp down hard on tax abuse. However, globalisation, digitalisation and changing business models mean that the nature of aggressive tax planning, fraud and evasion is evolving quickly, and the policy-response must keep pace. The EU needs to continue to enhance its framework to fight tax abuse and equip tax authorities with the tools and information that they need to collect their rightful revenues. The parameters of fair tax competition may need to be updated, to match modern realities and to prevent some countries from eroding the tax bases of others.

- *A gap in the tax transparency rules, due to rapidly evolving online business*

The digital platform economy has been growing rapidly, and is expected to expand even more in the future. However, income earned via digital platforms is not always reported, and therefore not taxed as it should be. The specific, cross-border nature of the platform business model makes it difficult for tax authorities to detect the income earned on platforms, and to tax it appropriately. Greater tax transparency is needed when it comes to the income earned through sales on online platforms.

- *Unexploited potential of technology, which can help administrations and taxpayers*

Tax authorities have massive amounts of data at their disposal, but the capacity of tax administrations to exploit this data remains limited. Better use of technology and data analytics could significantly improve the fight against tax evasion and avoidance, while also allowing synergies to be built with other policy sectors, such as customs. Digitalisation, if harnessed properly, can also help to reduce the administrative burdens on taxpayers and ensure that taxation better reflects the business environment in the digital age.

What has the Commission proposed to address these problems?

Today’s Package contains three separate but complementary initiatives to address the issues outlined above. They set out the path towards fairer, simpler and modernised tax systems, which will help support the EU’s recovery and contribute to a better tax environment for the long-term.

Action Plan for fair and simple taxation supporting the recovery

Today’s Tax Action Plan contains a set of 25 initiatives the European Commission will implement between now and 2024 to make taxation fairer, simpler and more adapted to modern technologies. It is designed to ensure that taxation policy supports a swift economic recovery and sufficient public revenue for long-term growth in the EU. The Tax Action Plan sets out measures to:

- Reduce tax obstacles and unnecessary administrative burdens for businesses in the Single Market. Tax simplification will improve the business environment, enhance business competitiveness and contribute to economic growth.

- Help Member States enforce existing tax rules and improve tax compliance, ensuring they can secure reliable tax revenues.

- Help tax authorities better exploit existing data and share new data more efficiently, in a way which will improve the enforcement of tax rules and help combat tax fraud and evasion more effectively.

- Promote taxpayers’ rights, by increasing their awareness of their rights under EU law, simplifying their obligations and facilitating their compliance.

Revision of the Directive on administrative cooperation (DAC7)

The Commission has proposed to amend the Directive on Administrative Cooperation, to extend the EU tax transparency rules to digital platforms. Member States will automatically exchange information on income generated by sellers on digital platforms. This will not only allow national authorities to identify situations where tax should be paid, but will also reduce the administrative burden placed on platforms, who have to deal with several, different national reporting requirements. In addition, DAC7 will strengthen administrative cooperation through the clarification and improvement of existing rules, such as an explicit inclusion of joint tax audits and group requests. This will help Member States be better equipped to fight tax evasion, without unduly burdening platform operators.

Communication on Tax Good Governance in the EU and beyond

The Communication on Tax Good Governance sets out how to further strengthen how the EU can promote the principles of transparency and fair taxation, within the EU and internationally. This includes a reform of the Code of Conduct – which sets the parameters for fair tax competition in the EU – and improvements to the EU list of non-cooperative jurisdictions, which tackles non-EU countries that refuse to follow internationally agreed standards. In particular, the Code of Conduct needs to move to a new stage where it will not just examine specific preferential measures, but also general features of Member States' corporate tax regimes that can have similar, harmful effects. Finally, the Communication also outlines the EU's approach to assisting developing countries in the area of taxation, in line with the 2030 Sustainable Development agenda.

What are the specific measures that you are proposing to make tax fairer and simpler?

Today's Action Plan sets out a number of specific measures to make tax in the EU fairer and simpler. For example:

Registration

- The Commission will propose to amend the VAT Directive with the objective of moving towards a single EU VAT registration, with which they would be able to provide services and/or sell goods anywhere in the EU.

Reporting

- The Commission, together with Member States, will prepare an EU-wide cooperative compliance framework - an initiative to facilitate and promote tax compliance for businesses, based on greater cooperation, trust and transparency. The initiative should help resolve any cross-border tax issues between authorities in the area of corporate income tax.

- The Commission will present a legislative proposal with a view of adapting EU VAT rules to digitalisation. This proposal intends to elevate the use of IT as a tool for easier compliance and a more efficient fight against fraud by modernising VAT reporting obligations and facilitating e invoicing. It will also include an update of the VAT rules for the platform economy.

Payment

- Taxpayers should know clearly and in advance, where they are expected to pay tax. The Commission will prepare legislation to clarify the determination of tax residence for EU taxpayers who are active cross-border, ensuring that Member States use the same criteria to determine tax residence status, and lowering the risks of double taxation (or double non-taxation).

Verifications

- The Commission will make proposals to enhance the antifraud experts' network of the Member States (Eurofisc) and to improve the use of technology and the sharing information between Member States. This will have the dual goal of enhancing the fight against VAT fraud and facilitating compliant businesses.

Disputes

- Taxpayers and tax authorities, or different tax authorities, can disagree on the tax treatment of certain situations. The Tax Action Plan includes actions to reinforce tax dispute prevention and solution mechanisms, and extend it to VAT.

Simplification of tax rules

- The Commission will present a legislative proposal to amend outdated VAT provisions on financial services, which will take into account the rise of the digital economy and the increase in the outsourcing of input services by financial and insurance operators.

- The Commission will propose amending the VAT Directive in order to simplify the special scheme for travel agents and to ensure a level playing field with operators established outside the EU.

All these measures aim to significantly improve the tax environment in the EU. The Commission will deliver on these and other measures, in the Action Plan over the course of this mandate.

Why is the Commission suggesting further changes to the Directive on Administrative Cooperation (DAC7)?

In recent years, the EU has taken major steps through several legislative proposals to tackle tax evasion and to boost transparency. However, the evolving nature of the economy has meant that further action is needed at EU level to reinforce the fight against tax evasion and help tax administrations to keep pace. The digital economy and the development of new business models create new challenges for tax administrations. Moreover, the evaluation of the application of the DAC showed that there is still a need to improve existing provisions that relate to all forms of exchanges of information and administrative cooperation. Therefore, the Commission is suggesting to:

- introduce an automatic exchange of information between Member States' tax administrations for income/revenues generated by sellers on digital platforms. This information will help tax administrations verify that those who earn money through digital platforms pay the appropriate share of taxes.

- strengthen administrative cooperation through the clarification of existing rules such as group requests.

What is tax good governance and how does the EU apply it?

Tax good governance is the foundation on which fair taxation is built. Broadly, tax good governance encompasses tax transparency, fair tax competition, the absence of harmful tax measures and the application of internationally agreed standards. In recent years, there has been significant action – at EU and international level – to strengthen these principles and to ensure that they are upheld. The Commission has pushed for an ambitious agenda to improve tax good governance and clamp down hard on tax abuse, in the EU and beyond. As a result, Member States are now equipped with a robust tax transparency framework, common anti-tax avoidance measures and a new mechanism for resolving tax disputes. Tax crimes have been added to the scope of predicate offences to money laundering, among others.

In the context of the European Semester, the Commission has provided analysis on harmful tax competition and unfair tax practices and proposed country recommendations. In addition, Member States continue to peer review each other's tax regimes, under the Code of Conduct on Business Taxation, to ensure that they comply with the principles of fair tax competition.

What are the Commission's intentions in this regard for the future?

As new challenges emerge, the EU's ability to regulate fair tax competition and deter harmful tax practices – inside and outside the EU - needs to keep pace. Globalisation, digitalisation and modern business models are creating new limits for tax competition and new opportunities for aggressive tax planning. The EU's tax good governance agenda must continue to evolve, to prevent losses to national and EU budgets and to ensure that EU citizens and businesses can continue to rely on fair and effective taxation in the future.

Therefore, the Commission is proposing the following concrete proposals:

- a reform of the Code of Conduct for Business Taxation, to ensure that it can effectively tackle all forms of harmful tax competition in a more transparent manner.
- a review of the EU list of non-cooperative jurisdictions for tax purposes, to ensure that it is still effective, fit and fair to deal with today's challenges.
- a reinforcement of the EU's tax good governance rules regarding EU funds and defensive measures, to ensure that the EU's listing process has a real impact and provides clarity and certainty for third countries.
- Additional support for developing country partners in enhancing tax good governance.

Does the Tax Package cover digital taxation or corporate tax reform?

No, the Tax Package does not cover the issues related to digital taxation or minimum effective taxation. The Commission will present a dedicated action plan on business taxation this autumn. This will take stock of the discussions at the Organization for Economic Cooperation and Development (OECD) on these issues, to which the EU has actively contributed. It will also set out a roadmap for corporate taxation in the EU that is fit to meet the challenges of the 21^{st} century.

How does the Tax Package fit into the wider EU tax policy agenda?

Today's Tax Package is the first part of a comprehensive and ambitious EU tax agenda for the coming years. The Commission will also work on a new approach to business taxation for the 21st century, to address the challenges of the digital economy and ensure all companies pay their fair share. In the context of the Green Deal, the Commission will make proposals, such as the review of the Energy Taxation Directive so that taxation supports the EU's objective of reaching climate neutrality by 2050. A review of tobacco taxation and improvement of the rules for cross-border acquisitions of excise goods are also in the pipeline. This should help contribute to other important priorities, such as public health. Finally, taxation clearly plays a central role in the discussion on own resources in the framework of the Recovery Plan. This multi-faceted approach to reforming taxation in the EU aims to make taxation fairer, greener and fitter for the modern economy, and thereby contribute to Europe's long-term, sustainable growth.