European Company Tax Conference
Brussels 29-30 April 2002

"Towards an Internal Market without tax obstacles - A strategy for providing companies with a consolidated corporate tax base for their EU-wide activities"

speech by

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1 - Introduction

I wish first of all to thank those, and above of all Commissioner Frits Bolkestein, who have planned this conference, by continuing the efforts of his predecessor Mario Monti. It is my hope that the conference will fuel the debate and place the issue of company taxation on the European agenda as a fundamental issue for the completion of the internal market.

The issue is, as we know, a thorny one: addressing it means attempting to remove long-established practices and interests.

I will begin with what looks very much like a joke: I believe that almost all the problems that must be addressed - to which the creation of a consolidated corporate tax base aims to be a solution - would not exist if there were no taxation on company revenue. This hypothesis, far from being absurd, has been given considerable attention by scholars of public economy and taxation questions, and was brought to the attention of a wider public about a year ago by the US Treasury Secretary Paul O'Neill.

Without this type of taxation, the problem of the co-ordination of the taxation of company revenue and that of the income of shareholders (a problem that has never been resolved adequately) would not exist; nor, significantly, would the innumerable complications and pretences related to the periodic measurement of company revenue. This would not, it should be noted, be a move in favour of companies and against families - a non-existent opposition - but would be the taxation of the same flows of income in a different phase: that of disbursement rather than that of production.

You will, I hope, excuse this digression: do not fear, I am not about to suggest that Europe should take this path. Often, however, to think that things might be very different from how we have always known them stimulates the imagination and help to address problems.

Let us come, then, to our main subject, that of the search of a method of company revenue taxation that does not represent an obstacle to the single market, and which can contribute to the development of Europe-wide businesses.

2 - The European Parliament point of view.

As my contribution to the proceedings of this conference, I wish to illustrate the position expressed recently by the European Parliament on the issue of tax policy, and in particular on company taxation.

On 14 March 2002, the European Parliament passed a resolution, of which I had the honour of being the rapporteur, on the priorities on tax policy for the years ahead, as outlined by the European Commission in its May 2001 communication.

In the resolution the European Parliament focuses on the subject of company taxation, on which the European Commission itself had set out, in its communication of October 2001, to establish a wide debate on the "Strategy for providing companies with a consolidated corporate tax base for their EU-wide activities”; a debate which, thanks to this conference, will be able to take important steps forward and to establish fundamental principles as a basis for further progress. Progress which is increasingly necessary and urgent.

The resolution passed by the Parliament is important because it lays down a number of basic principles on an issue - that of taxation - in which oppositions are sharp and often, as we have seen lately, are cause of paralysis. The Parliament has finally managed to set out a definite way forward, outlining a position that managed to bring together a wide majority.

What, then, are the principles that the Parliament has set out? First of all, as a basic premise, the resolution, in a clear, unequivocal manner, views tax competition among EU Member States as a condition which - I quote - "can contribute to the attainment [of the objectives of growth and competitiveness in the EU] [and encourage] a positive approach by the Member States, helping to prevent tax pressure reaching excessive levels". The Parliament also, and I quote once again, "stresses that tax competition is not at odds with the completion of the internal market, which does not entail a total levelling-out of competitive conditions in each country and certainly not those relating to taxation; emphasises that the taxation dimension is an issue which is internal to each country, and does not regard the common market, but does demand the intensified removal of discrimination, double taxation and administrative barriers".

Those who feared that tax competition would lead to a “race to the bottom” that would prevent states from performing their essential functions have been and continue to be proven wrong by the evidence, which also offers no support to those who claim that tax competition is the cause of the tax burden on labour.

In my opinion this unprecedented recommendation, as a result of its powerful force as moral suasion, even not having any binding force, still represents an important stage in the debate on tax policy.

As we have seen, the Parliament has devoted special attention to the issue that represents the main subject of this conference: the creation of a consolidated corporate tax base for the taxation of European companies.

In particular, sharing the opinion of the European Commission, the Parliament believes that "with a view to reducing the legal costs of complying with 15 different tax systems and reconciling their existence with the internal market, it ought to be possible for EU companies with Community-wide operations – including those which in future are constituted as Societas Europeae – to have a consolidated corporate tax base, or one calculated on the basis of a single set of rules, as well as a mechanism for distributing the consolidated tax base across the various Member States".

While sharing the objective of the creation of a consolidated corporate tax base, the Parliament nonetheless points out that this objective, necessary for the completion of the internal market, can exist in parallel with different national rules. In accordance with this assumption, the Parliament underlines the idea of Home State Taxation, a solution that is seen as a possible intermediate stage towards an "optional common tax base", that is towards new harmonised EU rules, existing in parallel to national rules, available to European companies as an optional scheme.

By making this choice, the Parliament offers a solution which is not only sound in theory but also in method: it is clear, in fact, that a path that offers States an alternative to the distortion of their own tax systems is that which is most likely, within a reasonable space of time, to achieve concrete results.

As far as the problem of rates of taxation is concerned, the Parliament fully agrees with the approach of the European Commission, emphasising firmly that "whatever approach is taken to establishing a European consolidated tax base, decisions on levels of tax must remain within the exclusive competence of the Member States"; in fact the Parliament explicitly states that it considers that the harmonisation of tax on company revenue "makes no sense, even in the form of the introduction of a minimum level of tax".

This approach to rates of taxation is consistent with the underlying framework of the resolution, that of making use of tax competition as an instrument to obtain greater efficiency and greater discipline in the administration of public finances.

We will be neither surprised nor alarmed, therefore, at the results that have emerged from the preparatory study of the European Commission, that is the existence of wide differences between Member States in the real level of company taxation: in terms of the growth of the competitiveness and dynamism of the European economy, the Parliament does not consider as a negative factor the existence of very different levels of corporate taxation, nor the fact that these different levels, like the differences in other factors of production in individual countries, can affect decisions about where investments are made.

I think it is therefore necessary to avoid the erroneous opinion that the existence of a single market would involve a total levelling-out, on the part of legislators and governments, of the conditions of competition. It is clear that this objective cannot be achieved, since each country and each economic system has its own specific characteristics - in terms of geography, climate, human resources, know-how, rules, production resources, and infrastructures - characteristics that inevitably create competitive advantages or disadvantages. In actual fact taxation is only one of the features of the system of production to which firms and workers have to adapt themselves, and it is substantially no different from the other mentioned features.

In the first place it reflects the characteristics of the system, its preferences in terms of the size of the State and the scale of production of "public goods", its preferences in terms of taxation use rather than regulation use in order to achieve given targets. In actual fact, higher taxation might not lead to lower competitiveness because it could be linked to an efficient administration of the supply of services, or to a high level of infrastructures, and so on (if, however, higher taxation derives from lower efficiency in a State, this is an exclusively internal problem which does not regard the common market).

In the second place, it is precisely the instrument of taxation - we need only think of the example of Ireland - that can be fundamental in allowing the more disadvantaged countries to bridge the gap in competitiveness, thus helping to bring about a levelling-out of competitive conditions. It therefore seems to me to be wrong, and the EP shares this analysis, to believe that the fact that the production costs that affect investment decisions are post-tax, rather than pre-tax, prevents an efficient allocation of resources.

3 - Conclusion

To sum up and conclude, I would like to recall the following points:

1) We should welcome the dual strategy of the Commission in the field of company taxation: a long-term strategy for the creation of a consolidated corporate tax base must not lead to any relaxation with respect to the need to identify the targeted measures indicated by the Commission, aimed to the rapid removal of some of the main obstacles to cross-border activity by European firms;

2) The objective of the long-term strategy must necessarily be that of the creation of a consolidated corporate tax base; among the possible solutions, however, we must choose those which allow virtuous tax competition among Member States;

3) Home State Taxation and optional Consolidated corporate tax base, appear to be the most feasible solutions (the former could also be considered as an intermediate stage towards the latter);

4) In no event (and by no means, not even through the introduction of minimum tax levels) must we call into question the principle that the level of company taxation must be set by the individual Member States.