Beat: Politics

European Commission presents Tax Transparency Package

Combatting corporate tax avoidance

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USPA NEWS - The European Commission presented a package of tax transparency measures as part of its ambitious agenda to tackle corporate tax avoidance and harmful tax competition in the EU. A key element of this Tax Transparency Package is a proposal to introduce the automatic exchange of information.

Corporate tax avoidance is thought to deprive EU Member States´ public budgets of billions of euros a year. It also undermines fair burden-sharing among tax-payers and fair competition between businesses. Companies rely on the complexity of tax rules and the lack of cooperation between Member States to shift profits and minimise their taxes. Therefore, boosting transparency and cooperation is vital in the battle against aggressive tax planning and abusive tax practices.

This Tax Transparency Package aims to ensure that Member States are equipped with the information they need to protect their tax bases and effectively target companies that try to escape paying their fair share of taxes. "Everyone has to pay their fair share of tax. This applies to multinationals as to everyone else. With today´s proposal on the automatic exchange of information, tax authorities would be able to better identify loopholes or duplication of tax between Member States. In the coming months, we will put forward concrete actions to tackle such loopholes or overlaps. We are committed to following up on our promises with real, credible and fair action," said Vice-President Valdis Dombrovskis.

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: "Tolerance has reached rock-bottom for companies that avoid paying their fair share of taxes, and for the regimes that enable them to do this. We have to rebuild the link between where companies really make their profits and where they are taxed. To do this, Member States need to open up and work together. That is what today's Tax Transparency Package aims to achieve."

Transparency on Tax Rulings

The central component of today's Transparency Package is a legislative proposal to improve cooperation between Member States in terms on their cross-border tax rulings and it aims to mark the start of a new era of transparency. Currently, Member States share very little information with one another about their tax rulings. It is at the discretion of the Member State to decide whether a tax ruling might be relevant to another EU country. As a result, Member States are often unaware of cross-border tax rulings issued elsewhere in the EU which may impact their own tax bases. The lack of transparency on tax rulings is being exploited by certain companies in order to artificially reduce their tax contribution.

To redress this situation, the Commission proposes to remove this margin for discretion and interpretation. Member States will now be required to automatically exchange information on their tax rulings. The Commission proposes to set a strict timeline: every three months, national tax authorities will have to send a short report to all other Member States on all cross-border tax rulings that they have issued. Member States will then be able to ask for more detailed information on a particular ruling.

The automatic exchange of information on tax rulings will enable Member States to detect certain abusive tax practices by companies and take the necessary action in response. Moreover, it should also encourage healthier tax competition, as tax authorities will be less likely to offer selective tax treatment to companies once this is open to scrutiny by their peers.

This Package also contains a communication outlining a number of other initiatives to advance the tax transparency agenda in the EU. The Commission will examine the feasibility of new transparency requirements for companies, such as the public disclosure of certain tax information by multinationals. The objectives, benefits and risks of any such initiative need to be carefully considered. Therefore, the Commission will assess the impact of possible additional transparency requirements to help inform a decision at a later stage.

The Code of Conduct on Business Taxation is one of the EU's main tools for ensuring fair corporate tax competition. It sets out the criteria that determine whether a tax regime is harmful or not and it requires Member States to abolish any harmful tax measures that go against the Code. Member States meet regularly to assess their compliance with the Code. But over the past years, the Code has become less effective in addressing harmful tax regimes as its criteria do not take into account more sophisticated corporate tax avoidance schemes.

The Commission will therefore work with Member States to review the Code of Conduct as well as the mandate of the Code of Conduct Group in order to make it more effective in ensuring fair and transparent tax competition within the EU. The Commission, along with Eurostat, will work with Member States to see how a reliable estimate of the level of tax evasion and avoidance can be reached. There is growing evidence that evasion and avoidance are pervasive and cause significant revenue losses. However, a precise quantification of the scale and impact of these problems has not been determined up to now. Reliable statistics of the scale and impact of these problems would help to better target policy measures against them.

The Commission is proposing to repeal the Savings Tax Directive, as this text has since been overtaken by more ambitious EU legislation, which requires the widest scope of automatic information exchange on financial accounts, including savings related income (IP/13/530). Repealing the Saving Tax Directive will create a streamlined framework for the automatic exchange of financial information and will prevent any legal uncertainty or extra administration for tax authorities and businesses. The two legislative proposals of this package will be submitted to the European Parliament for consultation and to the Council for adoption.

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