

Address by Mr. Richard BURKE, Commissioner for Taxation, at meeting with the European Trade Union Confederation at Manhattan Building, Brussels, 10th November 1977, 10.00 a.m.

It gives me great pleasure to address your organization today as I am convinced that this meeting will make for a mutually profitable exchange of views on tax harmonization. I say this because it struck me when reading your document that the views it contained were broadly similar to those the Commission has been advocating for a number of years and that, as a result, could count on your support in this matter.

The Commission agrees with your document in that, during an initial stage, tax arrangements must be restructured with a view to eliminate all obstacles to Community integration and that, during a second stage, when some headway has been made towards European Union, the problems involved in bringing tax rates more closely into line will need to be tackled. The Commission has stated this as its objective in its Action Programme for Taxation, in which it stresses the need to complete work on establishing taxation conditions which would enable the highest possible degree of liberalization in the movement of persons, goods, services and capital and of interpenetration of economies. You also say that preparations should then be made, with a view to further European integration, to bring more closely into line the respective burdens of those taxes and charges having any substantial impact in this respect. We are all in agreement that tax harmonization is not an end in itself but is one of the instruments and powers given to the Commission to enable it to accomplish the tasks allocated to it.

In this connection, I should like to emphasize one point: it is relatively straightforward to identify the tax measures that need to be taken if a number of fundamental objectives laid down in the Treaty are to be attained. These measures are concerned primarily with tax structures and with the basis of tax assessment. By contrast, it is much more difficult, in view of the uncertainty currently surrounding the degree of economic integration

attainable in the future and also the speed with which progress can be made towards this target, to specify the appropriate tax measures; it is a fortiori impossible to draw up a detailed timetable for such measures. What can be said in this connection is that we will need to concentrate on harmonizing tax burdens, in other words bringing both the bases of assessment and tax rates more closely into line. But there is no denying that this will be a difficult exercise extending over several years.

It is when considering such medium-term and long-term action that we will also be able to make allowances for a number of desiderata that are contained in your document but that, unfortunately, could not be included in the Commission's Action Programme. I am referring to two points in particular to which you, quite rightly, attach special importance: tax evasion at national level and more balanced tax treatment for individuals. I am fully aware of the importance of these issues but European solutions are feasible only if a degree of political integration that continues to elude the Community is achieved. In fact, at the present time, it is extremely difficult even to carry out measures that are actually stipulated in the Treaty.

Now, to my mind, the best way to embark on our discussions is for me to review briefly the state of play as regards tax harmonization and to list the developments that have taken place since your last meeting with my predecessor, Mr. Simonet, on 21 October 1975. In this connection, I should like to deal in turn with VAT, excise duties, duty exemptions, direct taxes and tax avoidance.

V.A.T.

As you well know, progress in the last two years has concerned mainly the Sixth Directive, which was eventually adopted by the Council on 17 May this year. The Financial Regulation on own resources, which the Council is presently examining and is expected to adopt shortly, will enable the own resources mechanism to be applied in 1978.

In adopting the Sixth Directive, the Council left a number of matters outstanding, although it did commit itself to taking the relevant decisions in the near future. It is with this in mind that the Commission will shortly transmit to the Council proposals concerning the refund of VAT to foreign taxable persons and the scheme for second-hand goods and works of art. We are also contemplating action in other fields, to facilitate, for instance, mail-order business, an item of importance for consumers, subsequently, with a view to abolishing tax frontiers, the Commission will tackle the problems involved in simplifying the formalities to be completed at intra-Community frontiers.

It is worth stressing that although some areas have not been dealt with, the work being done in connection with VAT is of great importance and is undoubtedly a success for the Community.

EXCISE DUTIES AND OTHER INDIRECT TAXES

For excise duties, the situation is much less encouraging; the only matter still being discussed by the Council is that of excise duties on tobacco, the harmonization of which has already started. By contrast, no further progress on any of the important Commission proposals concerning other excise duties has been made for almost three years. In the light of these circumstances, the Commission forwarded to the Council on 27 July this year a communication on the matter. We are anxious to set aside a number of political problems that are hampering progress towards harmonization. Therefore the communication proposes that the Council disregard for the time being the framework directive, which is of no direct relevance to the day-to-day functioning of the Community, and acknowledges that the Council is not in a position to reach agreement on the directive concerning wine in the near future. Accordingly, it calls on the Council to focus its efforts first on the directives on beer and alcohol in order that a decision can be reached in both areas next spring, and then on the directive on mineral oils in order that a decision can be taken, among other things in the light of energy policy desiderata, by the end of 1978.

The Commission sincerely hopes that the Council will come round to its way of thinking and that these deadlines will be met. It would also like to see the Council agreeing to embark on the second stage of harmonization of the excise duty on cigarettes by the end of 1977 and also acting, in 1978, on another proposal before it concerning the definition of manufactured tobacco products. I am also hoping that the Council will make a start on our proposed directive concerning the harmonization of taxes on transactions in securities.

DUTY EXEMPTIONS

The Commission has been pressing ahead with its policy of extending the range of duty exemptions for travellers: it has forwarded to the Council a proposal for increasing the amounts involved and for adjusting these amounts from time to time to keep up with changes in the cost of living within the Community. The Commission is determined to follow up these measures. In parallel, it has laid before the Council specific proposals for resolving a number of problems that arise on the occasion of an individual's change of residence, marriage or death and also on the temporary importation of means of transport and transport equipment so as to make the public more aware of the Community's presence by minimizing troublesome frontier formalities.

DIRECT TAXES

In this field, as you well know, the Commission has decided, for obvious reasons, to accord priority to the problem arising in connection with taxes on business profits.

I would remind you of the two proposed directives, dating from 1969, concerning common systems of taxation for mergers between companies in different Member States and for parent companies and subsidiaries located in different countries. If we are to develop a common industrial policy, it is essential that these proposals be adopted. Under pressure from the Commission, the Council has resumed the work it had shelved in this field. It is hoped that the directive on mergers will be adopted shortly, perhaps even before the end of the year.

Nor must we forget the very important 1975 proposal concerning the harmonization of the systems of company taxation and of withholding taxes on dividends. As Parliament has not yet delivered its opinion, expected before the year, the Council has not begun examination of this proposal, which is expected to be a difficult, drawn-out affair.

Moving on to individuals, the Commission, as I mentioned at the beginning of my address and at the risk of disappointing you somewhat, does not feel that work can yet be put in hand on a general harmonization of personal income and wealth taxes. None the less, it is fully aware of, and is determined to eliminate, the forms of discrimination that exist in this field and that are obstacles to establishing the common market, particularly where frontier workers are concerned. The subject is currently under examination. Looking ahead, and beyond a technical directive designed to apply the provisions of the directive on company taxation to unit trusts and investment companies, the Commission will be primarily concerned with harmonizing the basis of assessment for taxes on business profits. This is a vast field that will engage us for a number of years to come.

TAX EVASION AND AVOIDANCE

As I was saying, the Commission finds itself in agreement with you in matters of substance in this area, but has a slightly different opinion as to how this important matter should be tackled. We believe that the responsibility for resolving all the problems arising at strictly national level rests with the Member States. The Commission, whose resources are very limited, is concentrating on the fight against international tax avoidance, that is to say avoidance made possible where an individual or a company has interests in more than one Member State. Here, the individual Governments are hamstrung by the limits set by sovereignty; international cooperation is a prerequisite, and the Commission's chief concern is to bring about such cooperation.

I would draw to your attention not only the proposal aimed at enforcing collection of amounts due in connection with VAT and excise duties but also to the proposal concerning mutual assistance in the field of direct taxes, at present before the Council, and the related proposal on the arbitration procedure. The Commission will press ahead with its efforts in this field and will propose mutual assistance arrangements in respect of indirect taxes, rules governing transfer pricing between undertakings belonging to the same corporate group, and partial solutions to the problem of the abuse of tax havens. Devising a comprehensive solution would necessitate international cooperation extending beyond the frontiers of the Community.

CONCLUSIONS

This rapid review of the situation brings out the two key ideas around which action by the Community in the tax field has centred: firstly, achieving tax neutrality in respect of intra-Community trade; secondly, establishing the conditions without which economic and monetary union, on which the Commission is at present launching a full scale debate, cannot be achieved.

The first objective has been largely achieved with the introduction of VAT in all Member States, and we trust that further progress will be made in the near future with the adoption by the Council of the proposed directives on excise duties.

Similarly, the Commission is also taking care to ensure that Member States comply with the tax provisions of the Treaty in order that misapplication of the tax mechanism does not give rise to any distortion in the conditions of competition.

At the same time, the policy being pursued in the field of duty exemptions is an indication of the Commission's determination not to confine its energies to creating a "Europe of big business". Because it is directly concerned with the citizen's immediate needs, this policy brings home to the man in the street in a special way the importance of the Community.

As events in recent years have shown, the second objective, economic and monetary union, will be much more difficult to achieve. No genuine progress towards this objective has been made since the famous 1971 Council Resolution on the matter.

There is no denying that the instrument of taxation must be wielded primarily with this aim in mind. Harmonizing direct taxes will be of overriding importance. The present divergences in this field are offset in part by the fact that there are still barriers between the national economies, but there is a danger that, as more progress is made towards economic and monetary union, these divergences will seriously disrupt the working of the Community. I am thinking in particular of the impact of direct taxes on capital movements and company profitability and hence of the repercussions unduly wide disparities might have in the field of business investment and location. As for indirect taxes, the harmonization of structures only is unlikely to prove sufficient, and a need may well arise for some alignment of rates both for VAT and for excise duties.

On account of the increased constraints that this will inevitably entail in a sphere in which national sovereignty has always been inviolable, this entire undertaking is bound to meet with resistance and opposition. As a result, such an ambitious target calls for considerable endeavour and greater political will on the part of Member States, all the more so in view of the fact that the current economic crisis is an additional obstacle to be overcome.

In these circumstances, the Commission needs more than ever the cooperation of all those who have responsibility for economic and social matters, especially the trade union organizations, if economic and monetary union is to cease to be merely a symbol and gradually become a reality.