REVIEW OF TAXATION POLICY IN THE EEC 1977 - 1980

ADDRESS BY MR. RICHARD BURKE

MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

TO THE

CONFÉDÉRATION FISCALE EUROPÉENNE

ROME, 6 NOVEMBER, 1980.

TAX HARMONIZATION IN THE EUROPEAN COMMUNITY.

Introduction

It is a great pleasure for me to have the opportunity to address the Congress of the Confédération Fiscale Européenne, for the second time. I first appeared before you at Strasbourg in 1978, when I defined the main lines of Community tax policy. Today I should like to review my four years as Member of the Commission responsible for taxation, to try to sum up our achievements and identify the obstacles to further progress.

The first stage in such an exercise is to set tax harmonization in its proper prospective as a technique for realising certain aims laid down in the EEC Treaty. Those objectives - forgive me for reminding you - are essentially to create a common market, to bring the economic policies of Member States into closer alignment, and to pursue common policies in defined areas.

A common market cannot properly function unless there is free movement of persons, goods, services and capital. It is therefore essential that the differences in national tax systems should not be of such a magnitude as to interfere with that free movement. Our ultimate objective here can only be the abolition of tax frontiers. The concept of a common market also requires fair and neutral conditions of competition as between enterprises: their tax burdens in other words should be approximately equal.

Viewed as an instrument of economic and social policy, taxation has important effects on the structure of consumption and production, the size, form, and location of investment, the profitability of business and the conditions of competition. We must therefore ensure reasonable coherence between national tax policy and the emerging common policies of the Community, especially in such key economic sectors as energy. Member States will still, however, for some time to come be able to use the tax system as an instrument of national economic and budgetary policy.

.../... Let us now see

Let us now see how far we have managed to apply these general principles to the two major indirect taxes, VAT and excise duties, and to company taxation.

Value Added Tax

Value Added Tax is undoubtedly the tax area in which the Community has made its most significant progress over the last four years.

Under the guidance of the Commission no less than eight directives have been adopted in this field. The importance of these directives varies considerably, but I consider that they fall naturally into three categories.

1. The Sixth VAT Directive and directives deriving therefrom;
2. The mutual assistance directives;
3. The directives providing for reliefs from VAT (and other taxes) benefitting private individuals.

Let me treat each of these categories in turn.

The Sixth Directive - to give it its full title - the "Sixth Council Directive of 17 May 1977 on the harmonization of the laws of the Member States relating to turnover taxes - common system of value added tax : uniform basis of assessment", clearly towers above the other directives in terms of importance and achievement.

Along with the First VAT Directive of 11 April 1967, which lays down the principle of a common system of VAT, the Sixth Directive provides a complete foundation for the common basis of assessment.

.../... The Sixth Directive [illegible]

The Sixth Directive did, of course, draw on some of the limited notions regarding structure and procedure already enshrined in the Second VAT Directive, adopted at the same time as the First Directive. However, even though the Sixth Directive can be seen as a development of the earlier directives, it is rightly considered to contribute significantly in its own right towards the achievement of European integration. The importance of its role results, on the one hand, from the success with which the detailed articles of the directive achieve their objectives.

The adoption of a uniform basis of assessment as laid down in the Sixth Directive was also a prerequisite for the implementation of the Community's own resources system, which itself represents a major step in the development of Europe. Value added tax has, as a result, taken on a role as a European tax in a budgetary sense which it plays in tandem with its usual budgetary role in each of the Member States. I count the implementation of the common VAT system in all Member States and the ensuing application of the full own resources system as one of the more significant achievements of the Community during the past four years.

I might add here that in the future development of own resources, a subject which will be very much in the forefront of the Commission's mind over the next four years, I see VAT continuing to play an essential role.

.../... I spoke of the success

I spoke of the success with which the Sixth Directive manages to achieve its objectives. These, as you are well aware, are to improve neutrality of taxation both within Member States and in intra-Community trade and to further the free movement of persons, goods, services and capital and the interpenetration of the economies of the Nine.

The directive's provisions are comprehensive in laying down in the Community law the basis of the common VAT system. All the basic notions pertinent to the tax, such as scope of the tax, taxable person, taxable transactions and place thereof, deductions, exemptions, special schemes, are encompassed in this text.

However, I would not deny that there are some shortcomings. The adopted text is not as far-reaching or as clear-cut as the Commission intended in the original proposal. Options are allowed to Member States, provision is made for subsequent proposals in some areas, transitional provisions are incorporated and, indeed, some problems are left essentially unresolved. These are the inevitable result of compromise. Some Member States found great difficulty in adjusting their version of this very important tax. Economic and social criteria had to be taken into account. But the Community does have a solid and detailed framework on which to build. Derogating provisions are seen as transitional and the need to further develop some areas is recognized. Given the will, however, there is no reason why further development of this "European" tax should be hindered and its objectives not fully realized.

.../... The Commission has also

The Commission has also made proposals for directives arising from the Sixth Directive, to provide for harmonization in areas not fully agreed when the Sixth Directive was adopted.

Of these, the Eighth VAT Directive of 6 December 1979 has been adopted by the Council. This directive lays down arrangements for the refund of VAT to taxable persons not established within the territory of a particular country. The principle of such a refund is to be found in the Sixth Directive and the Eighth Directive and comes to grips with the practical application of this principle. This I see as the classic procedure which will be used in the future for further development of those areas of the Sixth Directive now lacking in precision.

Under the Eighth Directive which is to be applied by Member States from 1 January next, a taxable person established in one Member State will be entitled to refund of VAT borne by him in another Member State, on supplies of goods or services or on importation of goods. In this way we can avoid cases of double taxation which hitherto were possible. This facility is of course of particular interest to exhibitors at international fairs or the like and to international carriers of goods. The directive removes an obstacle to firms trying to develop their activities abroad, and thus contributes towards the interpenetration of economies.

The Eighth Directive may be the only block yet to have been laid on the framework of the Sixth Directive. However the Commission has not been tardy in supplying building materials.

Our most recent proposal in this area, submitted on 13 June last, is the proposal for a directive determining the scope of Article 14 (1) (d) of the Sixth Directive which concerns VAT exemptions on the final importation of certain goods.

.../... The scope of this proposal

The scope of this proposal is particularly wide. The goods involved range through such diverse areas as personal effects imported from third countries by individuals, goods imported for promotion of trade or tourism, capital goods and stock imported on transfer of a business. They also include certain items associated - though in a terminal way - with the free movement of persons : I mean coffins, funerary urns and the like.

The main theme which we followed in preparing this proposal was the achievement of uniformity with customs provisions where these are compatible with the objectives of the common VAT system. Thus the tax provision will mirror intended customs relief provisions in a large number of areas. Obviously this is administratively desirable. In other areas we are more restrictive, not wishing for example to endanger the revenue of the Member States, and, of course, of the Community from own resources. We have also taken the opportunity to include provisions for simplifying existing procedures.

Similarly based on principles contained in the Sixth Directive is the proposal for a directive on the Community VAT and excise duty procedure applicable to stores of vessels, aircraft and international trains which was submitted to the Council on 23 January 1980. The proposal covers exemptions on importation and on exportation in both intra-Community traffic and that with third countries. The inclusion of both VAT and excise duty under the one set of rules was dictated by the similarity of problems posed in this field for the two taxes. We also want maximum simplicity on this front by maintaining a strong parallelism between the tax procedures and those proposed for customs.

.../... The draft Seventh Directive

<u>The draft Seventh Directive</u> lays down a common VAT system for works of art, collectors' items, antiquities and used goods.

The draft directive differs from those previously mentioned in that it cannot draw on the Sixth Directive for its principles. The area covered by the Seventh Directive is one of those unresolved areas of the Sixth Directive. Indeed this draft, on which agreement on basics has yet to be reached, clearly illustrates the difficulties experienced by the Council in attempting to solve problems for which the principles of a solution have not already been laid down in the Sixth Directive.

While this is certainly a complex field, and the solutions adopted by the Member States in the national context vary widely, it seems to me that adoption of a Community solution has, in fact, been delayed unduly. The proposal on the table, which was amended to provide more flexibility in the system following Parliament's opinion, represents the most reasonable solution as we view it, taking into account all aspects of the problem and in particular tax evasion. Essentially it provides for taxation on the basis of a reduced taxable amount, the level of which would be fixed over an accounting period of a year at either 30% of the selling price, or the actual difference between purchase price and selling price of the goods in question. A somewhat different scheme is envisaged for second-hand cars: they would be charged on the full selling price but with a fictitious deduction of input tax allowed.

Let me now turn to the <u>mutual assistance directives.</u> These were adopted on 6 December 1979 and were, effectively, elements grafted onto existing provisions. On the one hand, VAT was added to the Council Directive no. 77/799/EEC concerning mutual assistance in the field of direct taxes - I shall return to this later - and, on the other, it was added on to Directive no. 76/308/EEC on mutual assistance for the recovery of claims in the context of FEOGA (the European Agricultural

Guidance and Guarantee Fund), agricultural levies and customs duties. Mutual assistance for VAT comes into force in the Member States on 1 January next.

I consider that the development of an effective mutual assistance framework must go hand in hand with the increasing sophistication of the common VAT system. Exchange of information between national administrations will facilitate a reduction in tax evasion, in particular in relation to cross-border traffic. Furthermore, Member States now have the means legally to pursue VAT evaders across national boundaries in order to recover tax debts.

As I have mentioned, a major part of the Community's own resources now accrue from VAT and consequently any evasion or fraud has repercussions on the Community Budget as well as those of the Member States. Clearly this sharpens our interest in an effective mutual assistance scheme for this tax.

In the context of simplification of formalities and procedures, the potential for tax evasion and fraud should also be borne in mind, and measures such as mutual assistance taken to guard against it.

The Commission is convinced of the need to achieve a substantial simplification of current formalities and procedures applied in intra-Community trade. These must be viewed as one of the more serious obstacles to effective participation in intra-Community trade by firms and in particular by small and medium-sized enterprises. For this reason I have decided to submit to the Council in the very near future a programme of simplification of administrative procedures and formalities applied for the purposes of VAT in intra-Community trade.

.../... The final area

The final area I would like to deal with under the general heading of VAT is that covered by directives and proposals which concern tax and duty reliefs or exemptions benefitting private individuals. In this category I class travellers' tax-free allowances, tax-reliefs for small parcels or consignments, for personal property imported by individuals on transfer of residence, marriage or the like, and reliefs for private means of transport temporarily imported from one Member State to another. These provisions cover VAT, excise duties, and, in some cases, other consumption taxes normally charged on importation.

I am aware that your interest in these provisions is likely to be more personal than professional. However, I personally feel strongly about the need for these reliefs. I see as pressing the necessity of bringing the concept of the Community home to the ordinary man-in-the-street, the average European.

International travel is an important aspect of modern life and in this context our European tax-free allowances represent a truly tangible benefit of the Community for travellers. The adoption in December 1978 of three directives on tax exemptions for travellers' allowances and small consignments represents the highlight of the past four years in this field. I can only deplore the fact that, despite the Commission's proposal supported by the Parliament, the Council has failed even to preserve the real value of the intra-Community allowance set at that time.

.../... On our proposals

On our proposals on tax reliefs for personal property imported by individuals and for temporarily imported private means of transport dating from 1975, much work has been done and considerable progress made. I am optimistic that before the end of the year I shall be able to add these to the list of directives adopted during my term as Taxation Commissioner.

I have now dealt at some length with the Community's progress on Value Added Tax during my term as Taxation Commissioner. This is because I see it as an area in which the Community has indeed established its identity. Much work has been done. But much also remains to be done. Several of the Commission's proposals remain unadopted. Their adoption will contribute to the consolidation of the strong framework found in the Sixth VAT Directive. Future proposals will equally find their foothold in this directive and the common VAT system thus built up will, I believe, truly contribute towards the ultimate goal of tax harmonization - the abolition of tax frontiers.

.../... Excises: As regards excise taxes

Excises

As regards excise taxes, when I spoke to you in Strasbourg two years ago, I stressed how important are the "big 5" excises - i.e. on tobacco, oil, alcohol, beer and wine - for the Community market as a whole. Expenditure on the goods subject to these excises accounts in some Member States for up to one-fifth of total consumer expenditure. When this figure is linked to the high incidence of most of these excises - often as high as 70% of retail price - it becomes clear that all industries subject to these excises are closely tied to the prevailing tax system in a variety of crucial areas, such as pricing policies, choice of product range, production method and even the size and potential of their market. Moreover, it should be remembered that oil and alcohol in particular are used throughout the Community as raw materials and often under tax control; consequently, administration of these excises often impinges on a wide variety of industries whose final products are not themselves subject to excises.

Given that both the rates and the structures of the excises are very different between Member States, it is difficult to overstate the potential impact on these industries of excise harmonization. Even a small change in the coverage of an excise - for example, a decision to allow alcohol to be used tax-free in the production of perfume - can bring about a radical change in the cost structure of a whole industry. I can personally testify to the importance of the issues from the many visits I receive from representatives of the industries concerned, all of whom constantly monitor excise harmonization. The great majority of producers strongly support excise harmonization as a means to rationalize the Community market because the products of these industries, unlike the generality of products, are frequently confined to their own national market by the combination of generally high excise rates and widely different excise structures.

.../... For these reasons,

For these reasons, excise harmonization perhaps offers the most substantial single opportunity in the fiscal area to promote market interpenetration.

That said, I have to confess that progress has been disappointingly slow. In 1972, the Commission proposed that the Community should aim to apply five and only five excises - those on tobacco, oil, alcohol, beer and wine. These were chosen on pragmatic grounds, because all but wine were already taxed in all the Member States and because they were already substantial revenue raisers. There were, in addition, social reasons for choosing tobacco and drinks, and transport, environmental and energy policy reasons for choosing oil. The Commission followed up this proposal with a series of proposals to harmonize the structures of each of these five excises and it was at that time envisaged, in the heady days following enlargement, that we could move on to the harmonization of the rates of these taxes by 1980. Sadly, the only success which we can claim to date is that the excise on cigarettes has been partially harmonized. As yet, the Council has failed to agree that the overall excise structure should consist of only these five excises and it has also failed to adopt the Commission's proposals to harmonize their structures.

A considerable part of my time in the last four years has been devoted to persuading Community Finance Ministers of the good sense of these proposals, and I am glad to say that we are now seeing some real progress in the Council discussions for harmonizing the structures of the excises on beer, wine and alcohol. I have also found it necessary to add coercion to persuasiveness by opening a series of procedures against Member States for infringements of the Treaty arising from the maintenance of excise discriminations against imports from other Member States. In February of this year, the European Court found in favour of the Commission in cases against Denmark, France, Italy and Ireland and accepted, in an interim judgement, the principles advanced by the Commission in a case against the UK for discriminatory taxation in favour of beer relative to wine.

These Court decisions have given fresh impetus to the Council discussions and will, I hope, lead to adoption of the Commission proposals relating to excises on alcoholic drinks in the near future. Nevertheless, it is, I think, a sad comment on the present state of the Community that the Commission is obliged to force Member States towards an imposed harmonization by the Courts when they should in fact be themselves eager to reap the advantages which harmonization offers. What we now need is an awareness in the Member States that, for goods subject to the major excises, tax harmonization offers even greater opportunities to open up new markets than did abolition of customs duties between the Member States. This will require a Community approach, based on an assessment of the best European excise system, rather than an approach aimed at minimising changes at the national level. Given the wide-spread discriminations existing in the different excise systems the only alternative to our harmonization proposals will be piecemeal harmonization by Court decision. In my view this will give rise to arbitrary results with quite unforeseeable consequences and falls far short of the sort of system which could be achieved via negotiation.

Direct Taxation

I would like to turn now to direct taxation. This is an area where I believe there have been solid achievements over the past four years, even if we have not made equal progres on all fronts. The most important step was without question the setting up of a Community system for exchanging information, under the mutual assistance directive of 19 December 1977. On the other hand, our proposals for tax harmonization in the corporate sector have become bogged down in the European Parliament and there has been only one expert meeting in the Council of Ministers. Let us now look at the main proposals.

Mutual assistance

On 10 February 1975, the Council adopted a Resolution expressing its political concern at international tax evasion and avoidance and the need for the Community to take counter measures. The sequel, as you all know, was the mutual assistance directive, the very first measure ever adopted in the field of direct taxes. It has since, of course, as I indicated earlier, been extended to cover VAT.

Its provisions, which have now been in force for nearly two years, are extremely far-reaching. They provide for information to be exchanged which "may assist in determining the correct liability to another Member State's taxes on income and capital" in three sets of circumstances: where a Member State makes a specific request, where a Member State has information that points to the possibility of tax abuse, or where the information falls within certain categories of cases agreed between the respective Member States. All such exchanges are subject to strict conditions of secrecy.

At the same time, the directive sets limits to the exchange of information. A Member State is not required to provide information if its own rules would prevent it from doing so or if the other State is unable to provide similar information, the so-called reciprocity rule. A third circumstance justifying the refusal of information is where its provision would lead to a breach of commercial secrecy: this condition is, however, recorded in the Council minutes as subject to review after five years.

To facilitate the exchange procedure, provision is made for tax officials of the receiving Member State to be present in the providing Member State, where the latter State agrees to their presence. Finally, the directive provides, under Article 10, for the Commission and the Member States to keep the exchange of information procedure under constant review and to pool their experience, especially as regards transfer pricing within groups of enterprises. We have just embarked on the first such review in Brussels. In view of the length and complexity of the exercise, it will be some time before we are able to assess the results and decide what further proposals are necessary, either to improve the existing procedure or to deal with such problems as transfer pricing.

.../... As far as transfer

As far as transfer pricing is concerned, Mr. DELATTRE, Chairman of your Fiscal Working Group, will certainly come back to this question which has become increasingly important, as the recent activities of OECD and the U.N. show. The EEC also has to face these problems, but it cannot, of course, content itself with comments of a more advisory character; it has to propose legal rules with binding force. The multitude and variety of situations in the field of transfer pricing make it, however, very difficult to provide rules for each individual case. May I remind you - apart from the specific sector of oil multinationals - of the problems arising where the subject of transactions between associated enterprises are corporeal goods - merchandise - and "invisibles" (licencing, financing, rendering of services etc.).

If we look to these problems, it is not only for the sake of combatting international tax evasion which - I'm sure - is also one of your concerns. What we also want to do is to give enterprises, by fixing rules for the allocation of costs and profits, a minimum of certainty for their business dispositions and of protection against double taxation.

Before leaving this subject, I should mention that four Scandinavian countries - Finland, Iceland, Norway and Sweden - have formally requested to be associated with our mutual assistance procedure. The Commission, for its part, welcomes the initiative shown by these countries and hopes soon to be able to enter into negotiations with them.

Arbitration procedure

Under existing bilateral conventions, the two Member States concerned must endeavour to eliminate cases of double taxation by agreement, but there is no compulsion to do so. The Commission made a proposal in November 1976, which fills this gap by providing that where the two Member States fail to eliminate double taxation, the case shall be referred to an independent commission whose decision shall be binding on all parties.

.../... This is the first time

This is the first time that such an arbitration procedure has ever been proposed, and the international business community rightly attaches great importance to it.

Sometimes the objection is put forward - even by tax consultants - that this independent commission would not sufficiently guarantee the taxpayers' rights and that the establishment of a supranational legal authority would be a better solution. Such a solution would however, have raised complicated legal and procedural problems which would have considerably delayed Community action. This is the reason for our rather pragmatic approach which consists of grafting the independent commission on to the traditional mutual understanding procedure; and this is why, in proposing the directive on mutual assistance, we simultaneously announced the "arbitration directive" and expressed its wish to have both directives adopted by the Council at the same time.

It is only fair to tell you, however, that the Member States are dragging their feet. They maintain that, by and large, the bilateral arrangements are perfectly satisfactory and some of them go so far as to contend that double taxation should be regarded as proper punishment for seeking to avoid tax. This clearly denotes a need for attitudes to change in certain tax administrations. They have also raised the constitutional objection that, to the extent that an arbitration procedure is necessary, it should be embodied in a multilateral convention under Article 220 of the Rome Treaty, not in a directive under Article 100.

In June 1978, COREPER requested the Council Working Party on Financial Questions to examine simultaneously the Commission's proposal and the text of a draft convention prepared by one of the Member States. Over two years later, we are hardly any further forward. It is to be deplored that the Council seems unconcerned by the risk of overtaxation.

Company taxation

In the field of company taxation, the Commission has, as you know, made a number of proposals. It is not my intention to review them all in detail. Instead, I should like to concentrate on the two measures which have received particular attention during my period of office as Commissioner for Taxation. I refer to our proposal laying down a common taxation system for cross-frontier mergers etc., and to the proposal for harmonizing systems of company taxation and of withholding taxes on dividends.

The mergers proposal was presented to the Council in January 1969. The effect of its provisions is to defer the taxation that would otherwise be imposed when companies from different Member States engage in a merger, division or similar operation. By removing these tax obstacles in the way of companies wishing to concentrate or disperse their activities across Community frontiers, the proposal has a vital role to play in Community industrial policy. The importance of that role has, moreover, been recognized on more than one occasion at the highest political level: first at the Paris Summit of Heads of State or Government in October 1972, and then a year later, in the Council Resolution on Industrial Policy of 17 December 1973.

The mergers proposal must also be seen in its political context as parallel to the work on the Statute for European Companies and on the Draft Convention on International Mergers. It should, however, be stressed that our proposal could be of immediate practical value for certain cross-frontier operations, such as contributions of assets or the exchange of shares, irrespective of developments in these two other areas.

.../... Let me make it quite

Let me make it quite clear that the technical problems have, by and large, been solved, as a result of intensive efforts during 1977 and 1978. What we are now up against is the political opposition of two Member States who genuinely fear that the removal of tax obstacles to cross-frontier mergers and similar operations would precipitate a flight of capital and control to other Member States. In one case, it is argued that the mergers directive will be used as an escape route from the requirements of worker participation and, in the other case, a classical system of company taxation will lose out heavily to the neighbouring country with a system of full imputation and to countries with partial imputation. I have personally pointed out to the countries concerned that their main preoccupations are mutually contradictory, but we have nonetheless offered to insert a safeguard clause in our proposal under which its provisions could be varied where they were producing serious economic or social problems. This offer was formally embodied, in April of this year, in the Commission's Communication to the Council, in which we pointed out that after eleven years, it was time for the Council to examine our proposal. At the ensuing meeting of the Council's Working Party on Financial Questions, we encountered the same intransigeance as before from the two national delegations concerned. It seems a great pity, Mr. Chairman, in view of its potential benefit to the European Community, that it should remain blocked for reasons which have nothing to do with its intrinsic merits.

The second proposal I should like to discuss in some depth is the 1975 proposal to harmonize systems of company taxation and withholding taxes on dividends.

.../... We have in the Community

We have in the Community at present a variety of corporation tax systems ranging from the classical through partial imputation to full imputation; and even under the imputation systems, relief in the form of tax credit is generally confined to resident shareholders. In so far as the dividend will be worth more under an imputation system which grants full or partial relief from double taxation than under a classical system which does not, an investor, whether private or corporate, is likely to choose countries with imputation systems. This will give rise to distortions in capital movements and dividend flows. Furthermore, the differences in tax systems help to perpetuate the fragmentation of the European capital market and so undermine the purely financial measures, such as the lifting of currency controls, designed to unify that market.

Differences in systems also distort conditions of competition between enterprises whose distributed profits bear full liability and those whose distributed profits bear little or no liability. We must therefore strive to achieve a greater measure of tax neutrality. We must also guard against the possibilities of tax fraud in those Member States, which do not apply a withholding tax on dividends and which do not have the means of ascertaining the identity of the persons receiving dividends.

How then does our proposal tackle the deficiencies in the present situation? First of all, it lays down a common imputation system under which partial relief is given for the corporation tax paid on a company's profits in the form of a tax credit attached to the dividend distributed out of those profits. All shareholders wherever resident in the Community, will receive the same rate of tax credit on the company's dividends, that rate being determined and its cost being borne as a general rule by the Member State of the distributing company.

.../... Secondly, we propose

Secondly, we propose common bands for the rates of corporation tax and tax credit. The normal rate of corporation tax is to be between 45% and 55% of profits; however, Member States are permitted, for reasons of economic, social and regional policy to set rates outside these bands. The tax credit is set at a rate between 45% and 55% of the normal rate corporation tax on the grossed up distribution.

Thirdly, we provide for a compensatory tax to be levied on companies which distribute dividends out of profits that have not suffered corporation tax. The compensatory tax is equal to the tax credit attached to those dividends, and by this method the tax credit emanating from a subsidiary company or a permanent establishment can be transmitted to the shareholder of the parent company or head office situated in another Member State. Our proposal is, I believe, unique in providing this facility.

The fourth main feature of our proposal is a withholding tax of 25% on dividends. There are two exceptions; no withholding tax is to be imposed on dividends distributed by a subsidiary to its parent corporation resident in the Community, and it need not be imposed where the dividends are distributed to resident shareholders whose particulars are known to the tax authorities. In other words, countries like the United Kingdom and Ireland could choose not to apply withholding tax to their respective residents, since all such shareholdings will be registered, but would have to apply withholding tax to all other dividends except those paid to parent corporations resident in the other eight Member States.

Now where have we got with our proposal? After five years of wrangling, Parliament has still not delivered a formal opinion as required by the Rome Treaty. Their interim report of 2 May 1979 calls for the deferment of common rate bands and for priority to be given to harmonizing the tax base, pending further consideration of the proposal. We, for our part, have made it clear to Parliament why we cannot follow their line of reasoning.

.../... The call to defer

The call to defer harmonization of the rate bands reflects the concern, expressed in Parliament, that our proposal as it stands would restrict the power of national governments to vary the rates of corporation tax and tax credit in furtherance of specific domestic policy objectives. This fear is, in my opinion grossly exaggerated. If you look at the recent fiscal history of the Member States, you will find very few instances where they have juggled with the rates of corporation tax in order to grant incentives in furtherance of investment and other policies. Much greater use has been made of the tax base for this purpose : I need only cite the rules governing depreciation and the valuation of stock. It should also be borne in mind that the bands are by no means rigid : our proposal does permit Member States, as I have already indicated, to set rates outside these bands for specific policy reasons. But to leave the rate bands entirely open would mean abandoning the imputation system and all semblance of harmonization of corporation tax systems. All existing corporation tax systems would be covered so that the present situation would not be changed and the directive would be robbed of all force.

As regards the tax base, we consider that harmonization of the corporation tax systems must come first. The harmonization of the tax base would leave untouched these distortions in capital movements which come about precisely because the systems are unharmonized. Even if we could achieve complete harmonization of the tax base and complete uniformity of corporation tax rates tomorrow, we should not have achieved equalization of the tax burdens unless we had also harmonized the company taxation systems.

.../... Now harmonizing the systems

Now harmonizing the systems and bringing about a certain convergence in the corporation tax rates in the way we propose by no means removes all distortions. But the distortions resulting from differences in the tax base and from the absence of a uniform corporation tax rate do not immediately affect the distribution policies of companies and hence the return to the shareholder. They are therefore of only indirect importance in relation to movements of capital, which must be of great concern to us in the context of closer monetary and economic integration.

However, in view of the positions taken up in Parliament, we are putting more emphasis on our work of harmonizing the tax base. Our aim will be to establish a closer connection between harmonizing the corporation tax base and harmonizing the corporation tax system. As the problems involved in harmonizing the tax base cannot be solved overnight we would propose to lay down a transitional period during which we would define the common rules for determining the taxable profits of enterprises. We do not underestimate the magnitude of this task but it should be possible, in a reasonable time span, to evolve solutions for the main components of the tax base. To come up with a proposal is, as you as practitioners will certainly realise, all the more necessary since the Fourth Directive on annual accounts calls for action also in the tax field. Work on harmonization of the tax base has started, and I am happy to report that a genuine dialogue has been opened between your organization and my officials.

Once solutions have been devised, we envisage a formal link between the two sets of provisions - those harmonizing company taxation systems and those harmonizing the tax base - whereby they would be introduced and implemented in parallel. In other words, at the end of the transitional period, each Member State would apply a common system of company taxation and withholding tax on dividends to the profits of companies determined according to common rules.

.../... My presentation

My presentation concerning harmonization of corporation tax systems would be incomplete if I did not mention our complementary proposal for a directive providing for the application of the harmonized corporation tax system to investment institutions. If we want to achieve tax neutrality for dividend flows, we must necessarily also cover the case where dividends flow via such important financial intermediaries as the investment institutions. But, clearly, progress on this directive will depend on progress on the main directive.

Free movement of persons

Mr. Chairman, since I last addressed your Congress in Strasbourg in October 1978, we have proposed one further measure in the direct tax field : not this time, to do with companies, but with individuals living and working in the European Community. Our proposal, made in December 1979, is designed to help persons exercise their right of free movement in the Community by harmonizing the income tax provisions applicable to them. At present, such persons can find themselves penalized by the income tax treatment they receive as non-resident employees or as persons with financial commitments abroad. The Commission's proposal, aimed at removing these disadvantages, has three main provisions:

- firstly, that frontier workers should be taxed in the Member State of residence, with credit being given for any tax withheld at source by the Member State of employment;
- secondly, that other non-resident workers should be taxed in the Member State of employment on terms no less favourable than those applied to resident workers;
- thirdly, that income tax relief for payments such as insurance premiums and pension contributions should no longer be conditional upon the payee being resident in the Member State granting the relief; payments made anywhere in the Community should be treated alike.

.../... The proposal would affect

The proposal would affect up to 1.5 million persons! Nor will it have escaped your notice that the provision concerning the tax deductibility of payments could have far-reaching repercussions on those institutions providing insurance, banking, pension and other services across Community frontiers. I am pleased to say that discussions in the Economic and Social Committee and in Parliament are making good progress.

Conclusion

Mr. Chairman, as my term as Commissioner for Taxation will come to an end in two months' time, I should like to devote the remainder of my speech to looking ahead, attempting to delineate the tax policy that I think the Community should pursue in the 1980's.

Those of you who have read our report on the scope for convergence of tax systems in the Community will know that we are committed to completing the harmonization that is already under way. In the indirect tax field, the closer alignment of rates, both for VAT and the excise duties, will be instrumental in abolishing tax frontiers and in bringing nearer the day when we have a genuine common market.

We envisage, in the case of VAT, completing the process, begun with the Sixth Directive, of harmonizing the basis of assessment. This will necessarily entail the progressive elimination of the derogations which are at present authorized. We shall then have to decide on the tax structure, one rate or several, and in the latter event, what goods and services should be chargeable at the various rates. The final stage will be to set up a financial compensation mechanism under which VAT receipts are allocated to the country of destination.

.../... In the excise field

In the excise field, it is imperative that our proposals concerning beer, spirits, wine and mineral oils be adopted by the Council and that all other duties, except those, such as betting tax, which do not entail frontier checks, be brought to an end. In addition, the present moves towards harmonizing the structure of excise duties on manufactured tobacco must be completed, and we must then proceed to harmonize the rates. Where excise duties are levied in the country of origin, there will be a need to provide for financial compensation; where they are levied in the country of consumption, there will be a need for close co-operation between the tax administrations.

The third area where we must resolutely pursue our policy of harmonization is that of company taxation. The adoption of our 1975 proposal is essential if companies in different Member States are to enjoy conditions of fair competition and if capital movements are to be free of tax-induced distortions. To ensure an even closer alignment of company tax burdens we shall in due course be making a proposal for harmonizing the tax base. The proposal will cover all the so-called normal measures : those which have an incentive character will be outside the scope of the proposal. There will, however, clearly be a need to co-ordinate tax incentives, whether as part of the Community's economic, regional, competition or transfer of resources policy.

There is also a need to co-ordinate the tax policies of the Member States. Looking at the whole field of my responsibilities for direct and indirect taxation, I should very much like to see a procedure established whereby Member States notified each other and the Commission of any major changes they were contemplating in the fields, which I have just enumerated, covered by tax harmonization.

.../... I know this touches

I know this touches a very raw national nerve and runs into the objections of a Budget Secrecy, but such a system of prior consultation would really be a much more sensible way of reconciling the national and the Community interest. Otherwise, convergence and indeed the Community, remain just empty slogans.

::::::::::::