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EEC taxation policy

Statement by M. Hans von der Groeben, member of the Commission of the European Economic Community, to the European Parliament in Strasbourg on 8 March 1966

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During Tuesday's debate in the European Parliament on the harmonization of turnover taxes, M. Hans von der Groeben made a statement concerning EEC taxation policy. He also took this opportunity to outline the Commission's intentions with regard to harmonization measures in fields other than that of the turnover tax.

The alignment of indirect taxes, i.e. turnover taxes and consumer taxes, which was essential if tax frontiers were to be abolished, concerned, he said, the Member States' tax systems in their entirety. Because of the interdependence of taxes the harmonization of turnover taxes and consumer taxes had effects on direct taxes as well. Some measure of adjustment in this field could therefore not be avoided. The aim was certainly not harmonization for the sake of harmonization. Where, however, differences between tax legislation hampered the success of the Common Market, inducing firms to move their headquarters and engendering distortions of competition, something would have to be done. Consequently, the question must be considered whether taxation on company profits should not be aligned.

Going into more detail, M. von der Groeben pointed out that with the growing integration of the Community economy and the increasing alignment of other factors determining investment,

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tax considerations were gaining importance in management decisions. Firms would set up and lay out capital where the most favourable investment conditions obtained. Precisely for this reason, it seemed of great importance that the taxation factor should be neutralized within the Community.

The harmonization of direct taxes, however, would not only neutralize taxes on production and trade but also those on capital movements. High international mobility of capital was making a most important contribution to the integration of the separate economies. This sector, which was particularly sensitive to competition, was therefore also one in which harmonization was urgently required. For this reason the arrangements - which varied widely from country to country - for taxing income from capital at source should be aligned as soon as possible.

There were many cases in which the economy could not be made more competitive without company mergers. If this kind of industrial combination at Community level were to be made possible, it would be necessary to set aside existing obstacles in the field of taxation. At present, companies wishing to amalgamate were hampered by heavy taxation, which - where the firms belonged to different countries - would hit undisclosed reserves. They were thus forced to resort to other forms of combination, such as the reciprocal purchase of shares, the establishment of joint research establishments, etc. These expedients did not, however, always meet the needs of the enterprises concerned.

Finally, M. von der Groeben spoke of the effectiveness and yield of taxes, a question which, he said, was relevant for both direct and indirect taxes. The most thoroughgoing alignment of taxes in the Common Market would be pointless if the revenue authorities in fact administered tax rules along widely differing lines. Consequently, the Commission had sent out a questionnaire on the mechanism of taxation to the Member States' finance departments and these had sent detailed replies. A working party was now drafting a collective report which would be available, it was hoped, in the course of the year.

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