

Presidency Issues Note for the Informal ECOFIN Working Session III

Berlin, 31 August 2020

Fair and effective taxation

The focus of the German Council Presidency in the area of taxation is the EU architecture for fair and effective taxation. The aim is to hold a wide-ranging exchange of views among the Member States at the political level which will provide important impetus for further discussions within the Council.

Introduction

Within the EU, the Covid-19 pandemic has shown us once again the importance of having a well-functioning internal market. In order to safeguard the functioning of the internal market, it is essential to have fair and effective taxation and a level playing field for all businesses. The tax burden must be distributed fairly and transparently. Everyone needs to make an appropriate contribution to financing our societies. Only in this way can it be ensured that all Member States have sufficient financial resources at their disposal so that they are able to protect citizens and companies, including during times of crisis.

At the same time, modern and innovative tax policies are essential in order to foster the EU's economic strength. This also safeguards Member States' tax revenues.

Elements of the EU architecture for fair and effective taxation

The EU architecture for fair and effective taxation comprises various elements:

- The incorporation of the measures for the taxation of the digital economy to be agreed at the G20/OECD level into EU tax law constitutes a focus of the German Council Presidency. We should continue to closely monitor and constructively support the OECD process at the EU level. This also includes taking into consideration the conclusions of the European Council of 17–21 July

2020, which provide for the introduction of a “digital levy” as an additional type of EU own resources. The processes of digitization have significantly changed economic activities and corporate structures. The associated challenges are best dealt with through internationally coordinated action. The OECD is currently developing proposals for reforms that are intended to effectively address the tax challenges arising from the digital transformation.

- This important work package includes the introduction of a global minimum effective tax. This initiative will enhance the fairness and resilience of the international tax architecture. It will ensure that all Multinational Enterprises pay a fair amount of taxes and contribute to the public finances accordingly.
- The work against unfair tax competition is another important element of the EU architecture for fair and effective taxation. Combating harmful tax practices within the EU and also at the international level is an important complement to the regulatory framework of EU tax law that is agreed among the Member States. In order to ensure that the Code of Conduct Group (Business Taxation) that was set up for this purpose can also in future make an effective contribution to combating harmful tax practices within the EU and beyond, it seems necessary to carry out a reform of the group and its mandate, which has not changed since 1997. The group’s mandate should, in particular, reflect the developments in international tax law that have happened in the meantime, as well as further developments in international tax law. It should also reflect the fact that the group’s remit has grown. These changes to the mandate are necessary to ensure that the group can continue to make a constructive contribution to fair and effective taxation.
- The targeted fight against tax avoidance requires more intensive administrative cooperation and enhanced transparency through the exchange of information. This goal is served in particular by the EU-wide introduction of a reporting obligation for operators of digital platforms. As well as closing tax loopholes, the reporting standard also serves to implement the internal market, preserve competition between the digital and traditional economies, and reduce the burden on taxpayers and platform operators as a result of the reporting obligation and tax compliance requirements. The Commission’s proposal to amend Council Directive 2011/16/EU on administrative cooperation provides important input in this respect, as well as in relation to enhancing administrative cooperation. Now it is up to the Member States to swiftly reach agreement within the Council.
- With regard to the further development of our common VAT system, we need to reach concrete agreements that further simplify tax collection, and organise it in a more efficient way, in the interests of businesses and national administrations. Modern digital technology could provide suitable and effective opportunities in this regard. Closer cooperation among our tax administrations is necessary in order to fight VAT fraud even more effectively and to protect honest businesses. The Commission has developed a Tax Action Plan with various initiatives aimed at

achieving these goals. We therefore want to use this opportunity to draw attention to the Council's main priorities in this area during the discussions that are beginning.

The elements of the EU architecture for fair and effective taxation provide a basis for being able to securely and reliably deal with current as well as future challenges. They will ensure that the Member States have sufficient financial resources at their disposal so that they can carry out their tasks relating to the European general interest.

Questions for discussion:

- Our capacity for internal solidarity and external sovereignty depends on modernising our tax systems. How can we, as the EU, best react to the results of the OECD process for Pillar One (reallocation of taxing rights)?
- A common approach to an effective minimum taxation in the EU can create a level playing field in the Internal Market. What is the best way to achieve this?
- In July, the European Commission presented comprehensive proposals for reforms with regard to direct and indirect taxes. What role should the Code of Conduct Group (Business Taxation) play in the future EU architecture for fair and effective taxation, and which elements of its mandate would require amending to this end? Which VAT-related measures from the Commission's Action Plan for fair and simple taxation are of particular importance?