European Parliament

Croatian Presidency of the Council of the European Union
PARLIAMENTARY DIMENSION

Background note

Towards a new international tax system?

Setting the scene: the OECD and the G20

At international level, the Organisation for Cooperation and Development (OECD) and the G20, as the forum gathering the most developed economies, have been working on tax issues around four axis: enhancing tax transparency, addressing tax avoidance, promoting tax policies for strong, sustainable and inclusive growth, and supporting tax as a tool for development. The EU is doing its part, notably on digital taxation.

The digitalisation and globalisation of the economy has substantially increased the geographic mobility of the tax base and Multinational Enterprises (MNEs) play an increasingly important role in international trade. Indeed, in the previous decades, the conditions in which tax systems operate have changed dramatically.

A platform for tax collaboration was created within the OECD and discussions were held at G20 meetings in order to try and reach a broad agreement by June 2020. The OECD/G20 Base Erosion and Profit Shifting (BEPS) Project remains, with its 15 measures, a cornerstone in avoiding proliferation of uncoordinated unilateral measures and is forming the basis for international taxation. The OECD/G20 Inclusive Framework agreed on a work programme for addressing tax challenges, including the ones stemming from digitalisation of the economy:

(i) Pillar One addresses the allocation of taxing rights between jurisdictions and considers various proposals for new profit allocation and nexus rules;

(ii) Pillar Two (also referred to as the "Global Anti-Base Erosion" or "GloBE" proposal) calls for the development of a co-ordinated set of rules to address ongoing risks from structures that allow MNEs to shift profit to jurisdictions where they are subject to no or very low taxation.

At the 28-29 June 2019 G20 Osaka Leaders' Declaration, the G20 "*reaffirmed the importance of the worldwide implementation of the G20/OECD Base Erosion and Profit Shifting (BEPS) package and enhanced tax certainty. [They] welcomed the recent progress on addressing the tax challenges arising from digitalization and endorsed the ambitious work program that consists of a two-pillar approach, developed by the Inclusive Framework on BEPS". They confirmed that they "will redouble [their] efforts for a consensus-based solution with a final report by 2020."*.

The European approach

While the BEPS project has been an international initiative, its implementation at EU level in a coordinated manner has been a challenge per se that required a series of legislative initiatives, including the Anti-Tax Avoidance Directive and amendments to the Directive on Administrative Cooperation in the field of taxation (DAC). Tax dispute resolution has been enhanced with the adoption of the Directive on tax dispute resolution mechanisms. Coordination in the VAT area has also significant implications for the competitiveness of the Single Market.

Work at the level of the European Parliament has contributed in raising awareness for these issues, notably by four resolutions in past parliamentary terms (TAX, TAX2, PANA and TAX3). Three key initiatives in the tax area are, nevertheless, pending:

- the relaunch of the Common Consolidated Corporate Tax Base in a 2-step adoption process;
- the Digital Tax Package to address the issue of taxation of the digital economy in a coordinated manner across the Single Market (through the allocation of new taxing rights to countries in which MNE's make business without physical presence on their territory);
- the proposal for a Qualified Majority Vote to legislate in the tax area, instead of the currently applicable requirement for unanimous decisions.

Having in mind the missions accomplished and those still not, it is time to consider the EU taxation of the future. For such exercise, due weight must be attached to the global context, the rising powers, the value of information, as well as to broad policy concerns, such as climate change and digitalisation.

The Commission President political guidelines have set the general orientations and Commissioner Gentiloni spelled out the priorities at his hearing at the European Parliament, including:

- Finding an agreed approach on digital taxation, working with the OECD and the G20 and, if no consensus emerges by the end of 2020, leading on the proposal for a fair European digital tax.
- Playing a central role in the European Green Deal: notably by leading the work on the review of the Energy Taxation Directive to align it with the EU's ambitions and bring an end to fossil-fuel subsidies but also by analysing the pros and cons of a new Carbon Border Tax; this tax could be a key tool to avoid carbon leakage and ensure that EU companies can compete on a level playing field, and it would have to be fully compliant with WTO rules.
- Focusing on making the EU's tax systems simpler, clearer and easier to use – and, within this, leading efforts on making a common consolidated corporate tax base a reality.
- Stepping up the fight against tax fraud, tax evasion and tax avoidance – including working towards a fraud-proof VAT regime and looking at how cooperation between member states' national authorities can be improved.
- Helping to develop stronger measures to combat harmful tax regimes around the world, including making full use of the list of non-cooperative jurisdictions for tax purposes.
- Ensuring progress by making full use of the clauses in the EU Treaties that allow tax proposals to be adopted by co-decision and qualified majority voting.

Some framing questions for the debate

Several EU Member States are introducing national digital taxes, failing a global agreement. What is your view on the role of the EU on digital taxation?

Should the EU continue to play a leading role in the OECD debate? Should it act alone if no agreement can be reached at OECD/ G20 level?

A key issue in the ongoing OECD/G20 discussions is the right for a country to tax income originating from another country if they have not been effectively taxed at a minimum rate in the latter. What is your views on this? Should the EU have a coordinated position on this?