

Jean Monnet Module

“Economic Policy in the European Union”

Session 4.5. The harmonizing process of VAT in the EU

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CONCEPT

Tax harmonization is the process of approximation or convergence of tax systems in force in a group of countries or territories with tax autonomy.

The concept of tax harmonisation is linked to the origins of the European Union, although it may also refer to other territorial areas.



CONCEPT

Professor Ricardo Calle, surely the first Spanish scholar of European tax harmonisation, defined it as:

"A process of approximation, gradual and partial" of the tax systems of the member countries of an economic community "to avoid fiscal distortions" in them.

Without saying that: "Harmonization does not mean unification or total homogenization of these tax systems".

The 1957 Treaty of Rome, in Article 99, initiated the journey of European harmonisation, putting it at the service of the creation of a common market.

"The Council (unanimously, on a proposal from the Commission and after assistance to the European Parliament and the Economic and Social Committee) shall adopt the provisions concerning the harmonisation of laws relating to turnover taxes, excise taxes and other indirect taxes (to the extent such harmonisation is necessary) to ensure the establishment and functioning of the Internal Market ...".



- The constitutional framework of European tax harmonization is specifically specified in:
 - **INDIRECT TAXES:**
 - Turnover
 - Specific Consumption
 - **WITH THE AIM OF:**
 - Establish an Internal Market
 - Guarantee its operation



First steps towards fiscal harmonisation (The Neumark Report)

German Professor Fritz Neumark of the University of Frankfurt was the theoretical architect of European tax harmonisation.

He was tasked by the European Commission with leading a team of experts to design that process.

The Neumark Report (1962) established the first coordinates for European fiscal harmonisation.



THE FISCAL DISTORTIONS DEFINED IN THE REPORT

“In a context of economic and monetary integration, the differences between the tax systems in force in the Member States can generate tax distortions that make it difficult to ultimately fulfill its founding objectives: The Common Market as an Internal Market”.

Distortion is considered to be any discrimination of fiscal origin that alters the conditions of competition in a market, in such a way that the decisions of the subjects about where to produce, buy/sell, invest, etc. are modified.



OPTIONS TO COUNTERACT DISTORTIONS

The Treaty of Rome itself established a catalog of solutions to counteract these distortions. Specifically the following possible measures:

1. Use of simple fiscal compensation mechanisms to avoid the negative consequences generated by said distortions on the conditions of competition in the markets.

2. Launch a tax harmonization process, adopting those measures that are necessary to eliminate existing distortions.

3. Address a total unification of the tax systems of the Member States of the European Economic Community.



Following the recommendations of the "Neumark Report", resulting from the work carried out by the Commission chaired by Professor Frankfurt, the European authorities reached the following conclusion:

Although it could be considered that the optimal option was the third (full unification of tax systems)


The difficulties derived from its application, caused by the great difference between the fiscal systems among themselves (economic reasons), and by the loss of fiscal sovereignty of the States that its implementation would entail (political reasons),

The Report determined that the best alternative would be **fiscal harmonization for these reasons**




TAXATION AS STATE COMPETENCE


First, because the weight of national budgets is much higher than that of the EU itself. Taxes are the main source for financing public spending.



Second, because the preferences of citizens for taxation and public spending are conditioned by cultural, economic and social reasons linked to their country.



Third, because the payment of taxes is closely linked to the exercise of national sovereignty and the democratic process itself.



For all these reasons, the role of the EU in taxation has been less and has focused on harmonizing the indirect taxes that most affect international trade.



This harmonization, as Professor Calle well established in his works:

It would be "a process of progressive but partial approximation of the tax systems of the Community countries, with the aim of eliminating distortions preventing the realization of a Single Market".

It is therefore set up not as an end in itself, but as an instrument to achieve the objectives proposed in the European Treaties and set at all times by the European authorities.



THREE WAYS TO ACHIEVE FISCAL HARMONIZATION:

1. Through tax competition: letting market forces achieve this approximation of tax systems, without introducing specific measures from European authorities.

3. Unilateral harmonization, so that countries are freed to take such measures as they deem appropriate individually.

2. Active harmonisation or coordination: the Community institutions lay down the rules to be applied in the States in order to achieve this tax approximation.



In the area of indirect taxation (VAT and excise taxation) the Community authorities opted for an active harmonisation strategy: to dictate the common rules to be applied in all Member States.

With regard to direct taxes, a competition strategy was chosen: market forces would be the ones that approximated the tax structures of States, institutional measures would be reduced to specific aspects: the structure and functioning of cross-border enterprises.

In addition, progress has been made in combating tax evasion and the relocation of taxable income, as well as in cooperation between tax administrations.

WE CAN ADVANCE THE FOLLOWING INITIAL CONCLUSIONS:

- Only an **ACTIVE HARMONIZATION** will be adopted (establishment of common standards from the community institutions for compliance by all member states) **IN THE FIELD OF INDIRECT TAXES:**
 - Taxes on turnover (with the general introduction of VAT).
 - Taxes on Specific Consumption.
- Process that, in any case, will be linked to progress in European integration.



THE HARMONIZING PROCESS IS RELATED TO ADVANCES IN EUROPEAN INTEGRATION

We can cite the following milestones in the process of European integration:

- Single European Act, (Luxembourg, February 1986, in force since January 1, 1987), proposed the creation, from 1993, of a Single Internal Market that would function as a national market.
- It involved the elimination of borders between States and the free movement of goods, people, services and capital within the European Union.
- The European Union Treaty, better known as the Maastricht Treaty, which proposed the creation of a **Monetary Union**.



HARMONIZATION AND SINGLE INTERNAL MARKET

- Once the Common Market was achieved, the next important milestone in the European integration process was the achievement of a Single Internal Market.
- Once again, indirect taxes, closely linked to trade, were an obstacle to achieving this objective.
- This fact forced the adoption of new measures in the tax field by the community authorities.





INDIRECT IMPOSITION

We will focus on Indirect Taxation and, above all, on VAT as a key tax for harmonization.

The tax harmonization of excise taxes has been progressing as they constituted an obstacle to the fulfilment of the objectives set out in the Treaties.

We will address the analysis and balance of indirect tax harmonization in this order:

1) Value Added Tax.

2) Excise taxes



1) VALUE ADDED TAX



1) VALUE ADDED TAX

From the outset point of view, VAT was set up as the most important tax to achieve the objectives of European integration.

Most Member States had cumulative multiphase tax systems in their tax systems.

This way of taxing the overall volume of sales was highly distorting for the achievement of a common market.

The Neumark report underlined this and placed VAT among its main recommendations.

As far as 1967, the European Commission decided to implement this multiphase but not cumulative tax in all the countries of the Common M.



OWN RESOURCES OF THE COMMUNITY BUDGET

The unification in the VAT of the general tax on consumption of all the member countries was the first harmonizing step.

VAT became a necessary condition for a State to become part of the EU. Such was the case of Spain in 1986.

The next step was based on the Council Decision of 1970 concerning the system of own resources which should be financed by the Community budget.

Entre los denominados “Recursos Propios Tradicionales” se encontraba el IVA, junto a los derechos de aduana (Arancel Exterior Común) y las exacciones reguladoras agrarias y cotizaciones del azúcar e isoglucosa.



VAT BUDGETARY OWN RESOURCE

One of these own resources would be a part of the VAT collected in each State.

The amount would be determined by applying a percentage by all Member States on a basis calculated in a homogeneous manner.

The previous Directives had left quite a lot of latitude in relation to the elements of the VAT structure.

It became necessary to harmonize its tax base so that the system of own resources that finances the Community Budget would work properly.



VAT BUDGETARY OWN RESOURCE

This was carried out through the approval of the Sixth Directive, which defined a uniform base on which to apply VAT (Directive 77/388/CEE).

Until the end of the 1980s, harmonization was reduced to ensuring that the tax facilitated its function as a budgetary resource.



FROM THE COMMON MARKET TO THE SINGLE INTERNAL MARKET

- **The Single European Act establishes on January 1, 1993 for the completion of the Internal Market:**
 - Elimination of fiscal frontiers between Member States.
 - Elimination of “border tax adjustments”.
 - VAT: application of the principle of taxation at source.
 - Intra-community operations (between different Member States) would have the same treatment as internal operations.
- **It demanded new requirements regarding the harmonization of VAT:**
 - Approximation of tax rates.
 - Establish a financial compensation system.
- Agreement was impossible (unanimity was required) and a Transitory Regime was introduced, which maintained the principle of taxation at destination for transactions between Member States.
- This transitory regime is still in force, being consolidated in 2006 (Directive 2006/112/CE).





COMMUNITY VAT PROBLEMS

A BALANCE OF ISSUES THAT ARE STILL
CURRENT

ORIGIN OF THESE PROBLEMS

Respect for the socio-political status quo of the fiscal system of each country prior to the introduction of VAT.

This causes the existence of numerous exemptions and special treatments.

A situation that is increasing and complicating as more and more countries have joined the EU.


But VAT is not the most appropriate instrument of the tax system to carry out social policies.

Any modification of VAT is complicated by the requirement of unanimity for decision-making in the tax field.

And distortions and compliance costs are generated for companies and Public Administrations.

EUROPE WAS AHEAD IN THE APPLICATION OF VAT AS A FORM OF GENERAL TAXATION ON CONSUMPTION.

However, since the tax harmonization directive of 1977 (Directive 77/388/CEE), the economic reality has advanced much faster than the harmonization advances.

- VAT requires changes due to:
- the current importance of services in the economy,
 - the introduction of electronic commerce through the Internet and
 - globalization and relocation of industrial production.
- 

THREE ISSUES TO CONSIDER

A) VAT collection efficiency

B) Exemptions

C) Reduced rates



A) COLLECTION EFFICIENCY

The Collection Index is the most used index to check the efficiency of VAT collection.

IRIVA = Actual Collection (RR) / Potential Collection (PR).

RR: it is obtained from the collection data of the tax itself.

PR: obtained from the National Accounts.

COLLECTION EFFICIENCY

Data from the studies carried out (2003/2009) indicate that in the EU-15 this ratio is 0.55. In the Spanish case it was 0.49.

This means that the actual collection of VAT was around 50% of its potential collection.

Thus, half of the consumption is not taxed or a large part is taxed very favorably.

Although these data are old, the incorporation of new countries is not a sign that they improve.

B) EXEMPTIONS

These VAT collection reductions do not occur because of fraud, there are other causes of the tax regulation

Exemptions is one of them. Community legislation contains numerous exemptions on the basis of two criteria:

1.- Compensate for the regressivity of VAT and encourage the consumption of preferential goods and services (health, education, culture ...)

2.- Technical reasons: exemptions that affect financial services, insurance, real estate and gambling.

The academic literature notes that exemptions cause serious problems, namely:

PROBLEMS CAUSED BY EXEMPTIONS

- Companies that produce exempt goods or services cannot deduct the VAT they bear on their purchases.
- The non-deductible input VAT is mixed, from the exempt stage, with the price of the products, which acts against the VAT mechanism itself, which separates the tax quota from the price of the product.
- VAT, to the extent that these companies operate abroad, ceases to be neutral in international trade.
- The regulation of VAT is complicated by having to regulate and detail exempt transactions and, in addition, hinder the tax compliance of companies that carry out exempt and non-exempt operations.

C) REDUCED RATES

The Regulatory Directive allows certain goods and services (expressly related) to be taxed at a reduced rate.

Reduced rates are justified on social grounds: VAT is a general consumption tax that is also levied on basic necessities.

But these goods are consumed by the entire population and households with more income are more benefited.

The reduced rates turn out to be ineffective to improve the progressivity of the whole system, progressive personal income tax and social spending are preferable.

In view of the problems outlined, the current objectives of the Community authorities in relation to VAT focus on:

Create a simpler and more transparent system (freeing businesses from customs burdens and encouraging cross-border trade),

Establish a more efficient system (broadening tax bases and limiting the use of reduced rates),

Reduce tax fraud (estimated by the European Commission at around 12% of the VAT to be collected). (1)

(1) Communication from the European Commission: "Future VAT system:

Favorable to companies, favorable to growth." 6/12/2011

PROGRESS IN VAT HARMONISATION

February 2008: Two Directives were adopted.

- The first, relating to the place of location of the supply of services, which aims to ensure that the supply of services between employers is subject to tax in the State of the recipient of the service.
- The second regulates the process of refunding VAT paid by a taxable person in a State other than that of his residence, speeding up this process (until then tedious and complicated) and allowing its processing by electronic means.

On 5 May 2009, the Directive on the application of reduced rates in different sectors was adopted.



BUT THE MOST SIGNIFICANT ADVANCES HAVE TO DO WITH

The publication in December 2010 of a Commission Green Paper on the future of VAT. It affects its modernization and global improvement for the following objectives:

- **Achieve a tax in the service of the better functioning of the single market.**
- **Improve your collection capacity.**
- **Lower your compliance costs.**

In May 2012, following the Commission's formal proposal, the Council approved the characteristics that VAT should meet, namely:



PROPOSAL ACCEPTED BY THE COUNCIL

Eliminate unjustified exemptions and broaden the tax base to contribute to economic growth and fiscal consolidation.

Limit the application of reduced tax rates as much as possible.

Establish a "one-stop shop" for companies operating in several Member States.

Implement an Internet portal that reports on VAT throughout the EU.

Regulate a single self-assessment model for the whole EU.

HARMONIZATION OF VAT RATES

As far as tax rates are concerned, the differences in both the number of applied rates and their level are maintained.



Community legislation is reduced to establishing, on a temporary basis, a minimum limit of 15 % for the standard rate, while maintaining the application of the same special rates (reduced, super-reduced and zero rate).



On the other hand, the importance of achieving a greater simplification of VAT is highlighted, reducing the numerous exemptions that currently exist.



HARMONIZATION OF VAT RATES

In January 2018, the Commission presented a proposal in relation to tax rates to enter into force once the final regime has already been adopted (July 2022?).

It is proposed that countries may apply, in addition to a standard rate (equal to or greater than 15 %):

- two reduced rates (between 5 % and the country's normal rate),
- a zero rate and a reduced rate between zero and the level of reduced rates.
- In addition, it is proposed to delete the list of reduced rates and replace them with a new list of products to which the standard rate should apply (no reduced rates can be applied to them).
- In order not to reduce the tax revenues of The Member States, the weighted average rate of VAT (that borne by final consumers) should be at least 12 %.



VAT AND THE DIGITAL SINGLE MARKET

Within the Digital Single Market Strategy of the Community institutions, the taxation of electronic commerce and its adaptation to reality stands out.



Ensuring their correct taxation has been one of the European priorities of recent years.



To this end, taxation was made in the customer's Member State and not in the supplier's, which led to the introduction of a Mini One-Stop Shop Scheme (which entered into force on 1 January 2015).



VAT AND THE DIGITAL SINGLE MARKET

In April 2016, the European Commission gave a major boost to the VAT tax harmonisation process with the presentation of the "VAT Action Plan". It recognises that the current VAT system has not been able to keep pace with the challenges posed by the global, digital and mobile economy, as:

- It struggles to cope with innovative business models and technological advances in the digital environment.
- It's complex.
- It is very vulnerable to fraud (cross-border fraud alone accounts for a loss of revenue of €150 billion to Member States each year).

For all these reasons, it considers that VAT must be modernised and renewed, establishing a single European VAT area that will make it possible to face the challenges of the twenty-first century.



E-BOOK VAT

In this area, in October 2017, the Commission presented a package of measures including:

A proposal on VAT with which it is proposed to apply to electronic publications (books and electronic newspapers), the same rate of VAT that have their equivalents on paper.

The creation of the certified taxable person, so that the national Tax Administrations can issue a certificate attesting that a given company is considered a reliable taxable person as a whole, and may benefit from certain simplified procedures.



MODERNISING VAT FOR CROSS-BORDER E-COMMERCE

On 11 December 2018 the Commission announced new VAT Modernisation measures for cross-border e-commerce, which are part of the EU's overall programme to tackle VAT fraud and improve its collection on internet sales.

The measures are also intended to pave the way for a smooth transition to the new EU VAT rules applicable to e-commerce, which were due to enter into force in January 2021.





**THE LEVY ON FINANCIAL
TRANSACTIONS
(EXEMPT FROM VAT)**

FINANCIAL TRANSACTIONS EXEMPT FROM VAT

Despite this being a general tax, which aims to tax the consumption of all goods and services, financial transactions are exempt from VAT.

It is not a social exemption, which seeks the progressivity of the system. In this case, it is a technical exemption.

The application of VAT by each company (which deducts input VAT from its accrued VAT) requires knowing the value of each taxed transaction.

This is not the case with many financial services.


The European Commission estimated in 2010 that 2/3 of financial services do not have an explicit price.

FINANCIAL TRANSACTIONS EXEMPT FROM VAT

This exemption, like the others of a social nature, also generates distortions.




Financial institutions cannot deduct VAT on their purchases, so it turns out to be one more cost.



A cost that is transferred, at least in part, to the price of their services.




As there is a difference in tax rates in the Member States, entities belonging to those that have higher rates in their competition with third parties are disadvantaged.




TOWARDS A TAX ON FINANCIAL TRANSACTIONS IN THE EU?


As early as 1972, nobel laureate in economics James TOBIN proposed a tax on all spot transactions between currencies ("Tobin Tax").




The financial crisis of 2008 and the numerous bank bailouts with public resources brought back to the present day the opportunity of this tax.



The debate was even raised in the EU itself, despite the fact that they are easily mobile operations.



In 2011 the European Commission proposed a directive "to establish a common system of tax on financial transactions", with three objectives:



OBJECTIVES OF THE 2011 PROPOSAL FOR A DIRECTIVE

1) Harmonise indirect taxation on financial transactions to optimise the Single Market.

2) That financial institutions contribute to the financing of the costs derived from the crisis.

3) Create disincentives for those speculative transactions, which do not contribute to the efficiency of financial markets.

A HARMONIZING TAX ON FINANCIAL TRANSACTIONS

The proposal for a directive was part of the process of tax harmonisation.




It implied the unanimity of the Member States for its approval.



But unanimity on such contentious issues had proved impossible in the EU.



A group of countries tried to move forward on the path of "enhanced cooperation" with the support of the Commission.



In 2013, the EC presented a proposal for a directive to implement enhanced cooperation in this area.




ACCORDING TO THE 2013 DIRECTIVE TO HARMONISE FINANCIAL TRANSACTIONS

Taxed transactions must be carried out by financial institutions established in one of the participating Member States (Enhanced Cooperation)

- Set minimum rates
- 0.01% in derivatives transactions
- 0.1% on other transactions
- Each country will have room to increase them if it deems it appropriate.

The Mirrlees Report (2011) warns of the possible transfer of the FTT to savers in the form of lower returns.

This expert advises to go towards a VAT on financial transactions rather than towards an FTT.




A HARMONIZING TAX ON FINANCIAL TRANSACTIONS

A decade after the previous proposal, the European tax on financial transactions returns to the fore promoted by the Portuguese presidency of the EU (First half of 2021)


Through "Enhanced Cooperation" it is intended to be implemented by 10 countries in a coordinated manner (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain).

Five of these countries, including Spain, along with Belgium, France, Greece and Italy have started to implement it.


The question that is debated is whether to apply it to the purchase and sale of shares or also to derivative transactions.



Spain applies this tax (0.2%) from 2021 to companies listed on Spanish markets whose capitalization value exceeds € 1,000 million (In 2022 there are 57 companies).




The French model is applied, where they are taxed at 0.3%. Italy, like Spain, at 2%, but includes derivatives trading.



This tax was opposed by Luxembourg and the United Kingdom, which feared for their financial places. The UK's exit from the EU has favoured its progress.



The need to raise more funds to launch the European recovery plan after the Covid crisis gave the final boost to this tax.



2) EXCISE DUTIES



HARMONIZATION OF EXCISE DUTIES

The process of tax harmonization of Excise Duties is very different from that followed by Value Added Tax.

In this case, the starting situation was characterised by the existence of multiple different taxes in each Member State.

That is why the first steps of the Community authorities were aimed at determining which taxes should be maintained in all the States and which should be abolished.

It was decided that the taxes to be maintained are the current manufacturing taxes (on alcohol and alcoholic beverages, on manufactured tobacco and on hydrocarbons).



HARMONIZATION OF EXCISE DUTIES

The next step was to harmonize their structures and then the tax rates.

Throughout the 70s and 80s, numerous proposals were presented, and even two directives were adopted (relating to manufactured tobacco, one in 1972 and the other in 1978), but these are not of great importance for the process of fiscal approximation.

The process of harmonization of Excise Duties takes place through a gradual and relatively long transition.

Because it faces the following three obstacles:



OBSTACLES IN THE HARMONIZATION OF EXCISE DUTIES

1°) Social customs and customs, since it is difficult to establish new taxes on products that have always been exempt in certain countries.

2°) Consumption structures: too rapid a change in taxes could lead to significant changes in consumption habits, creating difficulties for certain traditional productions.

3°) Finally, the decrease in tax revenues, since an abrupt harmonization would affect the collection.



EXCISE DUTIES: HARMONISING SYNTHESIS AT COMMUNITY LEVEL.

In all Member States there should be excise duties levied on the consumption of:

- alcohol and alcoholic beverages,
- energy products,
- electricity and
- tobacco products.

Member States may maintain or introduce excise duties other than those indicated provided that they do not give rise to checks of any kind on Community trade in products covered by them.



EXCISE DUTIES ON ENERGY.

Directive 2003/96/EC of 27 October 2003 replaced, from 2004, the directive regulating the Excise Duty on Hydrocarbons and extended it to all energy products and electricity.

It had two objectives:

- Update the minimum level of taxation payable, thereby improving the Internal Market.
- Help achieve CO₂ emission reduction targets.



EXCISE DUTIES ON ENERGY.

Many difficulties for its adoption because of the necessary unanimity.



New proposal in 2011, purpose:

Tax all energy products according to their energy content (1) and carbon content (2), combining energy efficiency and environmental protection.





DIRECT TAXATION

SPECIAL REFERENCE TO CORPORATION TAX

STRATEGY ON THE HARMONIZATION OF DIRECT TAXES

In the area of direct taxation, the EU's strategy was one of tax competition.

This is logical if one takes into account that States:

- They have yielded their monetary policy in favor of the ECB
- That its budgetary policy has a series of limitations established by the Stability and Growth Pact.
- And that in the field of indirect taxes, there is a high level of harmonization achieved, which also limits its economic and budgetary sovereignty.



CORPORATE TAX VS. PERSONAL INCOME TAX

That is why national governments are reluctant to lose sovereignty as far as direct taxation is concerned.

They reserve the right to introduce regulatory changes in them, to compensate for possible imbalances in their internal economies.

However, in the Corporate Income Tax there have been several proposals for its harmonization, but not so much in the Personal Income Tax.

This seems logical if we take into account the greater mobility of the capital factor compared to that of the labour factor.





SPECIAL REFERENCE TO CORPORATION TAX

**Corporate Income Tax is the most
advanced in its harmonization among
Direct Taxes**

COMMON CONSOLIDATED TAX BASE

Corporate income tax in the EU is a problem for companies operating in more than one country.

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-
- Corporate income tax in the EU is a problem for companies operating in more than one country.

The more states that have joined the EU, the more this problem has increased, which must be tackled in a harmonising way.



COMMON CONSOLIDATED TAX BASE

Since 2001 the Commission has been focusing on the possibility of approving a common consolidated corporate tax base.

Initially, this measure would apply, which would be voluntary, to small and medium-sized enterprises operating in more than one Member State. Consolidated

This common consolidated tax base would reflect the tax result of a company or group of companies for the entire territory of the EU.

Although this common tax base would be applied in accordance with the same regulations, the tax rate of each country where these companies operate would still apply.

TERRITORIAL DISTRIBUTION OF THE BENEFIT

Each country must receive the part of the tax that corresponds to the profit obtained in its territory.



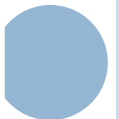
It will be necessary to establish an objective mechanism to carry out this distribution, as is the case in federal countries.



There are three factors that indicate where the profit has been generated:




SALES. WORKERS and ASSETS



TERRITORIAL DISTRIBUTION OF THE BENEFIT


SALES (Value of goods sold or services rendered): attributed to the place of Territorial distribution of the benefit destination of the same.



WORKERS: Weighting wages and number of workers in the place where they are paid.



ASSETS (tangible fixed assets), depending on the country of their owner or where they are rented.



WEIGHTING WAGES AND NUMBER OF WORKERS IN THE PLACE WHERE THEY ARE PAID.

The Commission set up a Committee of Experts to analyse whether or not such an approximation was necessary.

The Report drawn up by the Committee (Ruding Report) dates from 18 March 1992.

It proposed a series of concrete measures to:

- Eliminate international double taxation,
- Harmonize the tax structure (tax base: depreciation, provisions, capital gains, deductible expenses, etc., and tax rates).




PARTIAL HARMONISATION OF I. COMPANIES

There are no concrete proposals that propose the deep harmonization of the structure of Corporation Tax.

There are no concrete proposals that propose the deep harmonization of the structure of Corporation Tax.

Basically they try to:

- Eliminate tax obstacles to companies operating internationally.
 - Avoid double taxation.
 - Prevent tax fraud.
- 



DIRECT TAXES

Personal Income Tax

PERSONAL INCOME TAX: A BRIEF NOTE

In the field of Personal Income Tax there is no uniformity between the States of the European Union, so the differences that exist between the countries are great.

The institutional measures taken are practically nil.

However, the main concerns of the Community authorities focused on:

- **1. Cross-border pensions.**
- **2. The “brain drain”.**
- **3. Taxation of dividends received by natural persons.**



CONCLUSIONS



CONCLUSIONS

The tax system of the European Union is, in reality, a set of rules and directives that guide and define the tax systems of the states that make it up.

This set of regulations and directives give content and structure the so-called **tax harmonization**.

There are three different ways of achieving tax harmonisation: through tax competition, active harmonisation or coordination and unilateral harmonisation.

CONCLUSIONS

Has harmonisation met its objectives today?

Is the path taken sufficient to achieve these objectives?

Harmonization has not fulfilled all its purposes, it has advanced but it has a long way to go.



CONCLUSIONS

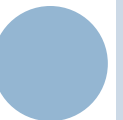
It can be said that, also in the area of harmonisation, the EU has moved at **two speeds**.



Indirect taxation has been harmonised more rapidly and intensively.



Direct taxation, on the other hand, has been slower and insufficient.



CONCLUSIONS

National governments are reluctant to lose sovereignty to supranational entities as far as direct taxes are concerned, reserving the possibility of introducing regulatory changes in them.



A large part of the obstacles that exist to cross-border activity are due to differences in the tax regulations applicable to determine the taxable base of Corporation Tax.




CONCLUSIONS


Member States have the capacity to carry out their own tax policies, competing with each other to attract capital and businesses through **competitive oversight**.



Corporation Tax is primarily responsible for this competence. Despite EMU, the difference in tax rates is very wide: Ireland: 12.5% and France almost triples it.




Harmonizing advances in Personal Income Tax have been very scarce. It can be said that it is the tax that guarantees the budgetary sovereignty of the States.




CONCLUSIONS


The Treaty of Rome (1957) already provided for the **harmonization of indirect taxes.**



It was its objective to ensure the establishment and functioning of the internal market, hence the progress made in the harmonisation of indirect taxation, especially in VAT.



The harmonizing process of Excise Duties faces three obstacles that recommend a gradual transition: social priorities, consumption structures and tax revenues.



FINISH BY POINTING....

... That if we were to highlight the issues that should be highlighted in this matter, we would cite:

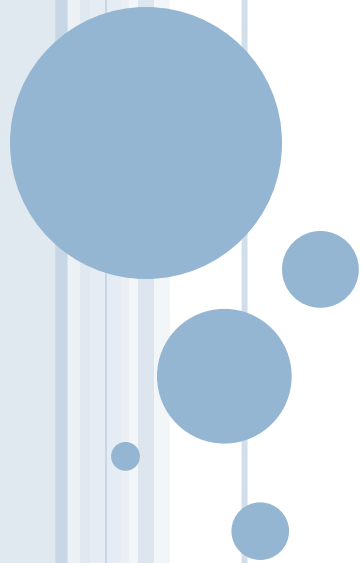
The necessary reform of VAT: simplifying its regulations, broadening its base and reducing special extra-fiscal treatments.

The taxation of financial transactions.

Energy tax reform.

The common consolidated corporate tax base





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This Jean Monnet Module has obtained co-financing from the European Union through the Erasmus + Program

Call for Proposals: 2020 – EAC-A02-2019-JMO

Reference: 620595-EPP-1-2020-1-ES-EPPJMO-MODULE



With the support of the
Erasmus+ Programme
of the European Union