



**EUROPEAN COMMISSION**

**Algirdas Šemeta**

Commissioner responsible for Taxation and Customs Union, Audit and Anti-fraud

**"Developing a Tax Environment for Growth and Competitiveness"**

Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Conference "Developing a Tax Environment for Growth and Competitiveness"

**Vienna, 18 January 2013**

Ladies and Gentlemen,

I am honoured to have been invited to speak to this distinguished audience.

The subject you have chosen for this conference could not be more relevant to the challenges that we face today.

Stimulating growth is obviously the most important means of exiting the current financial crisis.

And becoming more competitive is essential to sustainable economic recovery.

Therefore, "developing a tax environment for growth and competitiveness" must be the primary motive for every tax policy and reform, as we strive to return to prosperity and stability.

I would like to take this opportunity to detail how this objective should be promoted at national, European and global level, and to consider the best ways to progress.

## **Competition and tax policy**

First, smart, pro-growth taxation rests on two key pillars: Competitiveness and Fairness.

Despite a common misperception, these are not mutually exclusive principles.

In fact, they can be mutually reinforcing, in contributing to efficient, business-friendly taxation that upholds our social model.

I have said many times, that I regard tax competition to be a good thing. But only so long as it is fair.

It must therefore exist within a framework of rules, if fairness is to be preserved.

In the EU, the European Commission aims to ensure undistorted competition amongst Member States through state aid, antitrust and merger controls.

In this context, the application of tax provisions that are discriminatory and favour only certain enterprises or certain activities is prohibited.

But EU Member States have agreed to go even further than to prevent competitive distortions in the business tax field.

They do this through their commitment to the Code of Conduct on Business Taxation.

The Code addresses business tax measures which provide for a lower level of taxation than normally applied and which may affect the location of business within the EU.

Since the Code was established, over 400 tax regimes have been assessed within the EU. Around 100 of these were considered harmful, and have been eliminated or changed.

The capacity of this Code to ensure fair tax competition within Europe is therefore highly significant.

However, I believe that today the Code of Conduct on Business Taxation needs to be reinvigorated.

It must be used with more ambition by Member States and expanded to address new cases of harmful tax competition. I will say more about that in a moment.

## **Competitiveness and design of tax systems**

Having addressed the parameters for competitive taxation let me now turn to its structure.

What are the elements needed in a tax system to support competitiveness and growth?

It is not the tax rate alone, as is sometimes believed, and thereby the level of taxation.

Rather, a competitive tax system is one which contributes to making the economy of a country more attractive for investment.

As you probably know, to support the Europe 2020 strategy for growth and jobs, EU Member States have agreed on a new system of economic governance, known as the European Semester.

This serves to coordinate policy priorities at EU and national level, and to ensure that everyone is moving in the right direction, together.

Taxation is an integral part of the European Semester, and objectives to guide national tax reforms are set out as part of this process. These include:

- Shifting tax away from labour towards consumption, environmental or property taxation which are less harmful to growth;
- Broadening tax bases instead of increasing tax rates, thereby ensuring simplicity and neutrality of the tax system;
- Reducing corporate tax bias towards debt-financing and tax schemes which increase the debt bias of households to avoid financial risks;
- And improving the fight against fraud and evasion, for fairer and more efficient revenue collection.

This framework, which the Commission defined and the European Council endorsed, should lead our Member States towards competitive and pro-growth tax reforms.

Implemented via country specific recommendations, it should allow quicker progress than under regular tax policy decision-making, which requires unanimity.

And it delivers tailor-made solutions to the specific situation of each Member State.

Meanwhile, greater coordination at EU level helps reinforce national tax reforms and amplify their positive effects.

Working more closely together as a Union on tax matters also fosters a better business environment in the Single Market, by reducing administrative burdens, lowering compliance costs and tackling obstacles, such as double taxation.

In this vein, the Commission has made a number of important proposals over the past 2 years to improve the Single Market from a tax point of view.

These include in particular the revision of the Energy Tax Directive, the Financial Transaction Tax, the Common Consolidated Corporate Tax Base and the review of the VAT system.

If adopted, these measures would be a serious boost to competitiveness of our businesses in the EU. We should therefore expect quick progress on them all.

## **Tax fraud, tax evasion and fairness**

Let me now turn to my third point:

Taxation that is easily evaded can never be considered competitive.

Nor can it be considered fair.

The primary function of a tax system is efficient revenue collection, with everyone paying no more, and no less, than what they owe.

Therefore, tackling evasion and avoidance is fundamental to ensuring quality tax systems.

As already mentioned, we have focussed Member States on this point in their national tax reforms.

In parallel, we have intensified the work in this area at EU level too.

In December, I presented a comprehensive Action Plan to fight against tax fraud and evasion.

Allow me to briefly mention some of the actions which now need quick progress:

- First, Savings taxation: Member States must urgently agree on the reinforced Directive, as well as the mandate to negotiate a stronger savings tax agreement with Switzerland;
- Second, tax havens: Member States should implement a common definition of tax havens and dare to black-list uncooperative jurisdictions;
- Third, aggressive tax planning. We should implement common measures to block opportunities for aggressive tax planners and strengthen our anti-abuse rules at national level and in EU corporate tax law.

The Action Plan also calls on Member States to use the Code of Conduct to better effect and recommends that its scope be expanded to cover, for example, wealthy individuals.

While it is now up to the Member States to take this Action Plan forward, I can assure you that I intend to maintain pressure for progress.

In the next few months, we will establish a Platform for Tax Good Governance, bringing together all relevant stakeholders, to ensure that the momentum in fighting tax evasion doesn't flag.

In this context, and to make sure that full coordination is ensured, I will invite the OECD to participate in the work of the platform.

## **Need for progress at global level**

This brings me on to my final point.

EU action for competitive and fair taxation is vital. But it cannot be the last stop.

In a globalised economy with increasingly mobile activities, it is impossible to design competitive tax systems in isolation.

As we strengthen EU coordination and improve EU standards, we must seek the same from our international partners.

Global standards must also adapt to the fast-paced evolution of our economies, and rise to the new challenges this poses.

This is true for the exchange of information, where the EU has been the long-time champion of automatic exchange. It is good to see the global trend moving increasingly in that direction today.

It is also the case for harmful tax competition, where the EU has over 15 years of experience in eliminating harmful regimes at home.

A global standard must be developed to tackle this problem, and there should be no international tolerance for those that artificially poach tax bases.

We need to challenge, too, the current international profit allocation rules, if they are no longer fit for purpose.

Transfer pricing developed more than 20 years ago may no longer be appropriate given the increased importance of intangibles.

Permanent establishment rules which rely on a physical presence may not be equipped to deal with our increasingly virtual economy.

While we should strive to adapt such concepts to the new realities, we should also be bold enough to look for new and innovative solutions where required.

On all of these issues, the EU will work closely with the OECD and global partners, to help find the best way forward.

The EU also intends to raise these issues in the framework of the G8/G20, so that global answers to the identified problems can emerge.

## **Conclusion**

Ladies and Gentlemen, let me now conclude.

Developing a tax environment for Growth and Competitiveness relies on good synergy between national, EU and global tax measures.

At each of these levels, the principles of competitiveness and fairness must be the guiding force.

There is a growing concern amongst our public about the continued viability of our Social Model and our capacity to ensure sustainable growth.

I believe that the acceptability of our structural reforms depends on the fairness and transparency of our tax systems.

Obviously, this is not only a European concern; it is also a global one. That is why the global tax community can count on the support and active involvement of an innovative partner: the European Union.

I thank you very much for your attention and will be happy to participate in the panel discussion.