Priorities for EU tax policy

**Joint Committee on Finance, Public Expenditure and Reform**

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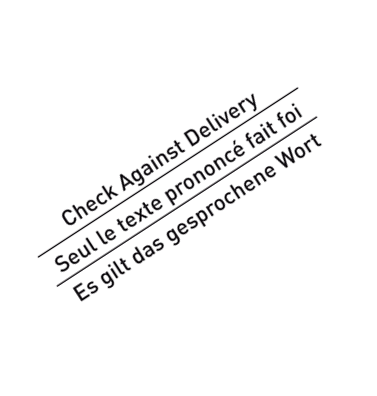


**European Commission**

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**Priorities for EU tax policy**



Irish Parliament Committee on Finance / Dublin

**10 January 2013**

Mister President,

Honourable Members of Parliament,

Ladies and Gentlemen,

It is a great pleasure to be here today. I thank you for your invitation to debate tax issues with you.

I would like to first extend my best wishes to you for the Irish Presidency. Like many of our European partners, I believe this Presidency will be a great opportunity to foster our European agenda and advance on important issues for the EU.

I would also like to congratulate Ireland on the important anniversary that it celebrates this year, marking 40 years as an EU member state.

Ireland has undergone a radical transformation since 1973, developing into a modern, open economy, driven by high-tech industry and global exports. It has been an example to many of the benefits that can be derived from EU membership.

It might be easy to lose sight of this in the current difficult times.

But even in hard times, Ireland has shown that working with its EU partners, and implementing the necessary reforms, can pay off.

Although there is still a way to go, confidence is returning, Irish exports are strong and the 1.1% growth forecast for Ireland this year is higher than that for the overall euro area.

Maintaining the stability of its currency and financial system, creating the conditions for sustainable growth and jobs, and enabling younger generations to be more confident in their future are top priorities on the European Agenda for 2013.

I was happy to see, in our discussions with your Government this morning, that these are shared priorities.

As you know, 2013 will continue to be challenging.

The Commission economic forecasts show that the EU remains in a fragile economic situation and unemployment is expected to remain very high.

But although the task is huge, the Commission is confident that Ireland has the will and the capacity to lead the “European Family” towards good progress and results during the first half of this year.

In this context, I would like to say a few words on how tax policy can contribute to the EU's consolidation and growth agenda, and how Ireland can both benefit from, and contribute to, stronger tax coordination in the EU.

**I - The European Semester: quality of tax reforms in the Member States**

Over the past few years, fiscal policies have been driven primarily by the need to bring public finances back to a sustainable path.

**Taxation in the European semester**

Consolidation on the scale currently needed can't be achieved through spending cuts alone. Therefore, many national reforms have resulted in tax increases.

The primary role of taxation is undoubtedly to raise revenues. However, through the European Semester, the Commission has urged Member States not to lose sight of the impact that tax policies also have on wider economic and social objectives.

We have recommended that Member States shape their tax reforms in the most growth-friendly manner possible. This means, for example:

* Shifting tax away from labour towards consumption, environmental or property taxation which are known as 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 as a fair and efficient way to raise expected revenues.

**The case of Ireland**

For Ireland, the European Council's only recommendation in 2012 was to implement the measures laid down in the joint EU/IMF programme.

The winter 2012 Review of the Economic Adjustment Programme clearly states that Ireland continues to make good progress, having met all the quarterly fiscal targets so far under the programme.

I am aware that, as in many other Member States, the budget presented by the Government last December entails some significant tax measures, in order to meet the agreed budgetary objectives.

Elements such as broadening the personal income tax base, reducing general tax expenditures, introducing a property tax and increasing excise duty are well in line with what the Commission recommends for quality tax reforms.

The approach we have taken with the European Semester clearly leaves the main responsibility for tax reforms with the Member States.

As long as they comply with EU law, they retain full sovereignty to adapt their tax systems and set their tax rates according to their own national needs. I can assure you that there is no European threat to the tax sovereignty of any Member State.

However, with our extremely interconnected economies, working in isolation doesn't pay off. It undermines national reform efforts, creates tensions and loopholes between Member States' systems and weakens our Single Market.

I therefore strongly believe that progress on tax coordination at EU level is in the best interest of every Member State.

In this context, let me now say a few words on how the Irish Presidency can help ensure progress on major tax files on the European Agenda.

**II - The European Agenda: Fairness and Competitiveness of tax policy**

Our European social model is about combining economic dynamism with social fairness. Taxation plays an important part in this model.

**Fairness**

Fairness lies in every Member State being able to collect the taxes they are due, and all taxpayers paying their legitimate share.

Tax evasion and avoidance are clearly, then, an attack on this principle. Not only do evasion and avoidance deprive Member States of up to €1 trillion every year.

They also mean that honest tax-payers shoulder a heavier burden, to compensate for the evaders.

With this in mind, I presented in December an ambitious action plan to combat tax evasion. This was accompanied by two recommendations to Member States on how to treat tax havens and how to deal with aggressive tax planning.

This package sends a strong signal to the world that the EU is serious about the fight against tax evasion. We can also highlight the need to work more closely together in international fora, notably at the OECD, to combat this serious problem. I count on the Irish Presidency to make sure that these proposals are endorsed by the Finance Ministers and that the issue is properly debated in the context of the G8 and G20.

I would also call the Presidency to ensure rapid progress on the improvement of the saving tax directive which is currently still facing opposition of two member states in the Council.

Fairness is also about each sector of the economy making an equitable contribution to public revenue. In this context, the Financial Transactions tax is the epitome of fair taxation. Ireland, as much as any Member State, has felt the effects of the financial sector's role in this current crisis.

And yet, this sector carries a disproportionately lower tax burden than others do. The FTT can redress the balance, and ensure that the financial sector makes a fair contribution to public finances.

Unanimity on the FTT at EU level could not be reached. Therefore, 11 Member States have decided to move ahead together with a harmonised FTT

Although Ireland is not one of the 11 Member States signed up to the FTT, I am confident that it will facilitate progress during its Presidency. The European Council and our citizens have high expectations for quick results.

**Competitiveness**

Let me turn now to the issue of Competitiveness.

Improving the tax environment for businesses is central to EU competitiveness. Investors need stability, legal certainty, less administrative burden and fewer compliance costs.

Eliminating unnecessary complexities and mismatches, which create tax obstacles for businesses in the Single Market, must be our focus.

Already, we have made some progress. For example, cutting red tape and improving business cash flow is at the centre of our on-going VAT reform. Certain important measures have already been delivered, such as new rules on electronic invoicing and cash accounting for small businesses.

Other substantial improvements are in the pipeline, and I am happy that Ireland has made VAT one of its tax priorities for the Presidency.

I would also like to see progress on the revision of the energy tax directive which, if adopted, would avoid double taxation for businesses subject to the Emission's Trading System and encourage development of green economy.

The Common Consolidated Corporate Tax Base is also a crucial proposal in terms of creating a business-friendly Single Market. Its fundamental objective is to make it cheaper and easier to do cross-border business in the EU, whether it’s an SME looking to expand, or a multinational investor.

I would reiterate that the CCCTB has nothing to do with tax rates, and Ireland has nothing to fear in this regard.

Member States must remain free to set rates and this flexibility allows a healthy degree of tax competition to be maintained.

Bearing this in mind, I hope that the Irish Presidency will help in pushing forward the CCCTB, as a tool for greater EU competitiveness.

Mister President,

Honourable Member of Parliament,

Ladies and Gentlemen,

The European Union is currently working towards deepening the Euro and forging a genuine Economic and Monetary Union.

Taxation cannot be avoided in this debate. Member States can – and must – retain their sovereignty on tax matters. This is essential for them to meet their specific national needs.

But, there must be a recognition, too, that the day of isolated tax policy is over. Coming closer together as a Union on tax matters does not threaten Member States' sovereignty. On the contrary, it reinforces their position at home to take the necessary measures for efficient, growth-friendly and fair taxation.

It helps our businesses and attracts investment, by improving the Single Market. And it strengthens our common position when addressing international challenges and spreading the principle of fair taxation abroad.

I therefore strongly believe that for taxation, as for other policy areas, the answer to our current challenges lies in more Europe, not less.

Let's move in that direction.