SPEECH

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THE BRUSSELS TAX FORUM 2008, 7 AND 8 APRIL 2008
THE ROLE OF TAXATION IN ENHANCING COMPETITIVENESS AND GROWTH IN A EUROPEAN WAY

SPEAKING NOTES

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Introduction

Ladies and Gentlemen,

I would like to congratulate the Commission on the organisation of the second Brussels Tax Forum after a successful kick-off last year. BUSINESSEUROPE praises the Commission's efforts to bring together stakeholders, policy-makers, experts and the general public on a subject of high relevance for the business community.

At BUSINESSEUROPE, we believe that more dialogue in this sensitive area is necessary. We have to build up an environment of mutual trust. We also have to generate a better understanding of the challenges pan-European businesses face in their day-to-day activities.

BUSINESSEUROPE represents over 20 million small, medium and large companies through 39 federations in 33 countries. This year, we celebrate our 50th anniversary. Since the very beginning of the European Union, the organisation has advocated the establishment of the Internal Market. The free movement of persons, capital, goods and services has become a tangible reality in many areas. Yet, tax systems remain highly fragmented across the EU. This fragmentation represents an important stumbling block for cross-border activity.

According to the last BUSINESSEUROPE Reform Barometer, tax obstacles are being tackled too slowly. European business federations in countries representing together 97% of EU GDP assess that national reform progress in this area is not satisfactory. Reform progress is only satisfactory in Ireland, Slovenia, Latvia and Hungary.

I will elaborate on two points:
- Firstly, what are the main challenges in dealing with 27 different tax systems when doing business across the EU?
- Secondly, how can European tax policy enhance competitiveness and growth?

1. **Main challenges in dealing with 27 different tax systems when doing business across the EU**

Let us look at some figures:

- Compliance costs: Annual average company and value-added tax compliance costs are estimated at 200,000 euros for a small and medium enterprise and 1.5 million euros for a large company (European Tax Survey, 2004).

- Small and medium enterprises (SMEs): 85% of SMEs consider taxation as an obstacle to growth, says a KPMG survey undertaken for BUSINESSEUROPE's SME Action Day in 2007. Over 40% view tax compliance costs as important factor hampering cross-border activities in the internal market.

- VAT - a crucial obstacle to cross-border activity: We have recently conducted a survey on VAT obstacles in the Internal Market. 60 companies based in 13 EU countries have participated. It shows that one in every five companies has already refrained from making intra-community transactions due to increased VAT compliance costs. More specifically, businesses face substantial compliance burden with regard to different national requirements in areas such as:
  - provisions for reduced rates (37% of respondents);
  - invoicing (50% of respondents);
  - regulations for VAT deductions (62% of respondents);
  - and refund procedures, in particular for foreign VAT (62% of respondents).

2. **How can European tax policy enhance competitiveness and growth?**

Businesses want to have **simple tax systems** which reduce tax-induced distortions. This will also reduce compliance costs. Furthermore, we need to enhance

- predictability
- the rule of law
- legal certainty
- and stability.

Past experience has shown that **sound tax competition** gives strong incentives to improve tax systems without eroding fiscal revenues. Competitive tax systems attract companies and this not only widens the corporate tax base but also creates jobs and stimulates growth. In addition, it puts pressure on governments to restrain spending.

Where do we have to enhance Europe's competitiveness?

(1) **Costly corporate tax obstacles** should be addressed with great urgency:
Compliance costs for transfer pricing requirements range between 1 and 5.5 million euros per year for multinational companies (European Commission, 2001). If you add the costs of transfer-pricing disputes, this is one of the most burdensome obstacles for cross-border business activity. The **EU Joint Transfer Pricing Forum** has made sensible progress in this area. But the differences and uncertainty of the treatment of transfer pricing by national tax authorities and the

limited use of the arbitration convention represent additional difficulties which have to be tackled.

(2) Need for a **comprehensive** approach:
The introduction of a **common consolidated corporate tax base** (CCCTB) could be a comprehensive measure to remove some of the main corporate tax obstacles in the European Union. To be competitive, the CCCTB has to be optional and allow for consolidation. It has to resolve transfer pricing problems. It should not involve tax rate harmonisation or the introduction of a minimum rate. If these conditions are fulfilled, the CCCTB could resolve transfer pricing issues, allow for cross-border loss compensation and reduce double taxation.

(3) Furthermore**, coordination among tax authorities** has to be enhanced.
- The ECJ points out obstacles to the freedom of movement of capital and the right of establishment in areas like:
  - the tax treatment of losses in cross-border situations,
  - exit taxation on non realized capital gains;
  - withholding taxes on cross-border income;
  - anti-abuse rules.
- Companies also suffer from the lack of coordination within the **VAT area**. The solution would be a uniform application based on a **one-stop scheme**, allowing companies to register and file VAT returns in one single country.

(4) To enhance the **fight against VAT fraud**, we consider that a good way forward is a reporting (and audit) system based on efficient risk management. This is even key to catch increasingly organised and internationally structured fraudsters. We are not convinced that fundamental changes to the VAT system would remove the fraud risks.

(4) Let me briefly touch about **green taxation**. We are embarking on CO_2 tax discussions at European level. We need to carefully consider the consistency of instruments currently put in place. These instruments imply a high burden for companies in an environment of high energy prices. There is a real risk of double regulation: there must not be a minimum CO_2 tax for fuel used by firms covered by the Emission Trading Scheme (ETS). Generally, **fiscal incentives** have an important role to play in this area. A minimum percentage of the revenue from carbon taxes should be used as direct tax incentives for the development of carbon reduction technologies.

Conclusion

Policy makers have to **look across policy areas**. The better regulation initiative and the review of the single market policy are reinforcing the EU's competitiveness. Cutting red tape and tackling remaining barriers in the Internal Market, can give a strong impetus to growth and job creation. Tax policy should be part of this overall growth strategy. As a minimum it should not work against it.