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Speech by Philippe de Buck, Secretary General
UNICE

THE NEED FOR CORPORATE TAX REFORM IN THE EU

First of all, let me say how happy I am to confirm UNICE's support for the tremendous work which the Commission has done in preparing today's conference, for its communication and report "towards an internal market without tax obstacles". UNICE's member federations have now published their comments on the communication, after a great deal of internal debate, underlining our overall support for the twin track strategy of tackling immediate problems in the short term, while at the same time working towards a solution in the longer term, that will address the many obstacles to cross-border business and investment activity within the EU. Jan van der Bijl, who is Chairman of UNICE's Fiscal Affairs group, and who takes full credit for the achievement of UNICE's common position, will go into the more technical detail of the issues under discussion.

So, turning to the question: why do we need corporate tax reform in the EU?

There are two sources of influence on business activity:

CHANGING GLOBAL ENVIRONMENT

The global economy is developing ever more rapidly. Businesses face new challenges and new opportunities, as borders become less significant when it comes to trade. Globalisation, increased competition, and technological change have all put pressure on companies to restructure, and to find new ways of doing business, integrating operations, exploring new markets, merging with other companies. Companies are now more active across the globe, both multi-national companies establishing global markets, and smaller companies exploring niche markets across borders.

CREATION OF EU SINGLE MARKET

EU integration has always been important for business integration, with implications for merger activity and investment, both internally and foreign direct investment into the EU. In the EU, we have seen significant improvements in the business environment, following the creation of the Single Market. The introduction of the euro as

Europe's single currency for the future acted as a catalyst for further economic reform. To meet the Maastricht criteria, governments had to meet certain targets for public deficits and debt, as well as controlling inflation and interest rates, while enabling convergence of exchange rates.

At **Lisbon** two years ago, and again in Barcelona, Member States committed themselves to creating the most dynamic and competitive economy in the world (…) – in order to achieve this it is vital that governments listen to economic and social actors, and take into account the evolving needs of Europe's economy.

You are wondering – what does this have to do with taxation?

Well, taxation affects the activities of companies of all sizes, in terms of day-to-day operations, and longer term strategic planning. The logic of the Single Market leads companies to try to organise themselves as a company within the Single Market. And although the Single Market has reduced many of the obstacles faced by companies in operating across the current 15 Member States, many barriers remain, particularly in the area of taxation. And I am

not just talking about multinationals, because these barriers create obstacles and costs for companies of all sizes – indeed SMEs face proportionately higher costs.

Last year, the proposals for creating a European Company Statute were finally adopted, after decades of discussion. UNICE had called strongly for an appropriate fiscal regime to accompany this Societas Europea, because without a suitable fiscal framework, the SE would have no real point for companies. I would say that the challenge of implementing a practical SE is as important a task as that of resolving the Community patent – another issue dear to the heart of European business.

I am here on behalf of the millions of companies in Europe which create jobs and wealth, which also pay tax, and who therefore have a strong interest in the future of taxation policy in the EU.

There is more to improving the tax environment for firms than curbing harmful tax regimes and tackling fiscal fraud, although

these are important issues – not least for Government Revenue departments.

UNICE's approach to taxation is shaped by three principles:

- Reduce total tax burdens on business,
- Preserve sound tax competition conditions
- Allow reform of corporate tax structures adapted to the Single Market.

Taxation is a highly sensitive subject, and one which Member States like to keep close control of, understandably. Therefore I wish to make it very clear that UNICE does **not** seek a full harmonisation of company taxation systems or tax rates in the EU. We want and need healthy tax competition as a way of keeping rates down, and it is right that Member States can maintain an element of policy flexibility.

Yet, there are many obstacles, such as double taxation, which are inconsistent with the single market. With a single currency, such

obstacles become even more incongruous. The world has moved on, and we need to look at tax sovereignty in different ways.

Enterprises which operate a pan-European business still have to deal with 15 different national tax jurisdictions. For tax purposes, their businesses are split into up to 15 parts, in what is supposed to be a single territory for business purposes. This creates expensive and time-consuming compliance burdens for all companies, especially SMEs. Not only do they have to deal with different forms of paperwork in every Member State where they conduct their business, but they also have to bear the costs of the lack of alignment between Member States' company tax systems. To take just one of the obstacles to cross-border investments, transfer pricing: this can harm relations between the subsidiaries of one company.

The current EU tax agenda takes little or no account of real business needs for measures to remove tax obstacles, given that its underlying objective is essentially to protect national revenue bases. Member States have repeatedly shown their unwillingness

to move towards a solution of the tax obstacles faced by companies operating in the internal market. Failure to address these problems will continue to impose unnecessary costs on business and hinder attempts to make the EU the most competitive and dynamic economy in the world.

A longer-term tax strategy is necessary to improve the functioning of the Single Market, taking account of the increased competitive pressures faced by companies. Many businesses have gone or are going through an overhaul of their business structures, so as to align them as much as possible with the logic of the Single Market and the euro, but without being able to streamline their tax requirements, this will not enable Europe's full economic potential to be reached.

It is essential to improve the efficiency of the Single Market in the short-term. The tax obstacles represent a significant hindrance to industry and should be removed.

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UNICE would like to see a fruitful debate on the introduction of an optional European system of company taxation, built around an optional consolidated taxable base. While I will leave it to the experts to discuss the finer points of this concept, I would like to emphasise the urgency of improving conditions for cross-border company taxation in the EU. This will facilitate the growth of trade and investment, and will enhance the competitiveness of European business, as well as boost profitability. These advantages will combine to the benefit of the economy at large.

UNICE urges Member States to give their full commitment to exploring the options for a coherent, efficient and simple basis for the future of company taxation in the internal market.

UNICE is ready to engage in dialogue with the Commission and Member States, in order to achieve a system which works for everyone.

Thank you.

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