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, our 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 hampers the full development of the Single Market and is a brake on the competitiveness of European companies.

Don't get me wrong. European companies are among the world's most competitive. They are the world's leaders in the trade of goods and services. They have created over 20 million jobs over the last decade. With a six-fold increase of foreign direct investment between 1995 and 2005, the Single Market has proven its attractiveness also to foreign investors.

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But the world does not stand still. Today's challenges - related to ageing societies, new competitors in emerging economies or rising energy and raw material prices - require urgent reforms in a number of areas. The Lisbon Strategy sets out a comprehensive reform catalogue to enhance our competitive strength to face those challenges.

We regularly issue a Reform Barometer to monitor the progress of those reforms at national level. It is based on a survey of national business federations in the 27 EU Member States. One aspect of reforms is the removal of tax obstacles to growth. According to the last Reform Barometer, reform progress in this area is not satisfactory for countries representing together 97% of EU GDP. It is considered to be 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:

- The costs of compliance with tax rules: 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. This data comes from the 2004 European Tax Survey.

- 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: In BUSINESSEUROPE, we have conducted a survey on VAT obstacles in the Internal Market. 60 companies based in 13 EU countries have participated. One in every five respondents 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 for 37% of respondents;
  - invoicing for 50% of respondents;
  - regulations for VAT deductions for 62% of respondents;
  - and refund procedures, in particular for foreign VAT for 62% of respondents.

These figures, amongst many others, show that complexity and fragmentation of tax rules is a huge burden on companies. This is clearly a competitiveness issue.

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 EU. To be competitive, the CCCTB has to be optional and allow for consolidation of profits and losses. 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. We will wait for the Commission proposal later this year, to give our final verdict on this important tax reform.

(3) Furthermore**, coordination among tax authorities** has to be enhanced.

- A number of court cases at the ECJ illustrate tax-related obstacles to the freedom of movement of capital and the right of establishment. It concerns:
    - the tax treatment of losses in cross-border situations,
    - how exit taxation is organized;
    - 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 an uniform application based on a **one-stop scheme**. This would allow companies to register and file VAT returns in their country of establishment.

(4) The **fight against VAT** fraud - which is strongly supported by BUSINESSEUROPE – should first and foremost make use of all possible means of building up an efficient tax administration. An effective fraud strategy needs to target the sectors where most fraud cases are registered to catch fast-moving fraudsters. We are not convinced that fundamental changes to the VAT system, such as a generalized reverse charge mechanism, would remove the fraud risks. There is a real risk that the resulting burden would be onerous for honest business and fraudsters would find their way around.

(5) Let me briefly touch on **green taxation**. To reach the Kyoto commitments, the Commission looks at a number of policies to reduce CO_2 emission. As a result, a whole battery of instruments is proposed: from a CO_2-based car registration tax over reduced VAT rates for energy-efficient products to a split of the minimum tax levels on energy into an energy and a CO_2 component. As a first step, we need to carefully consider the consistency of the market-based instruments currently put in place. There is a real risk of double regulation: there must not be a minimum CO_2 tax for energy used by firms covered by the Emission Trading Scheme (ETS). Generally, **fiscal incentives** have an important role to play in this area. Fiscal revenue should be used as direct tax incentives for the development of carbon reduction technologies and to facilitate the transition toward a low-carbon economy. This is even more important as long as the main European competitors have not implemented similar measures.

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. As a result of further market integration, tax considerations will play a more important role in the decision of a company to engage in cross-border activity. Complex tax rules will be an even greater obstacle to growth.

Tax policy needs to become part of the overall growth strategy. National governments have to actively work on this. As a minimum they should not work against it.