



Revisiting Taxation in the Wake of the Crisis

**Is tax competition harmful for employment?
Using taxation to reduce labour costs**

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Brussels - 28 September 2010

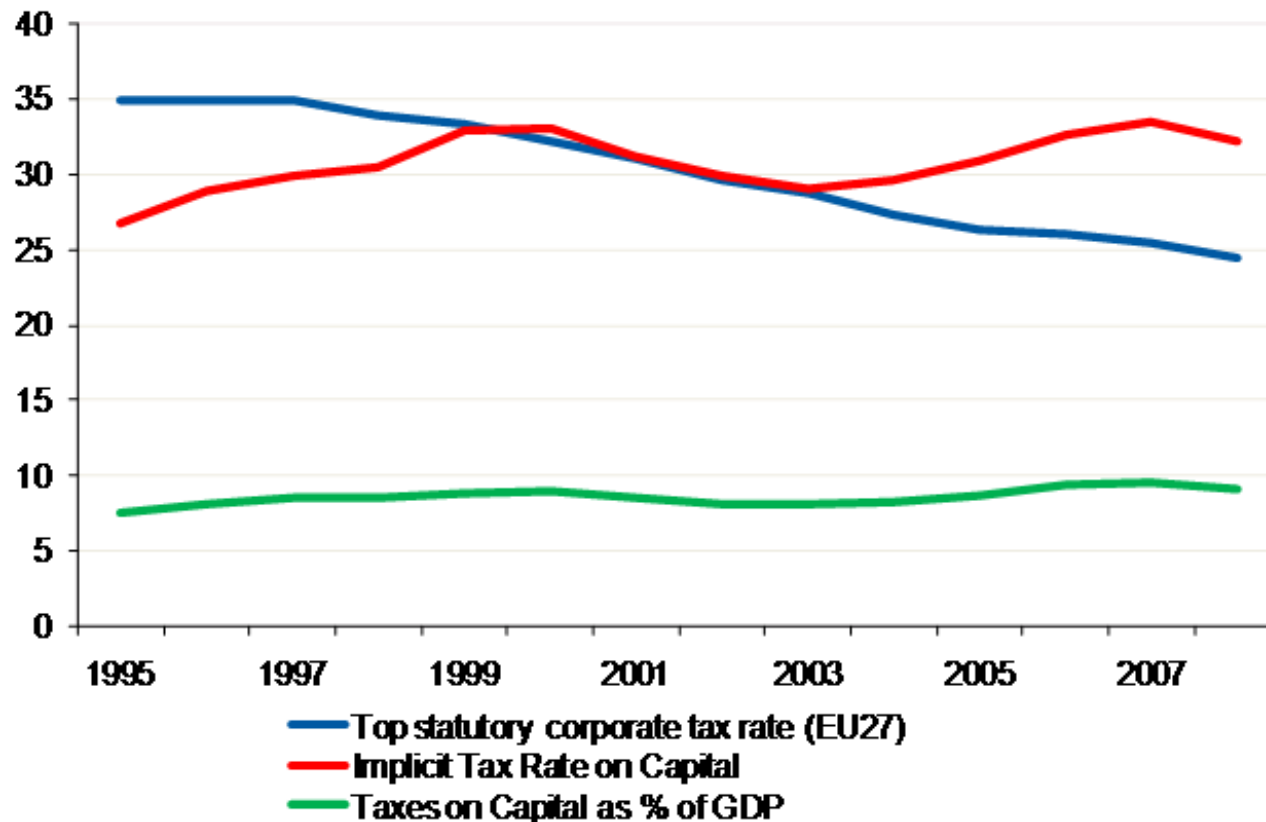
Is tax competition harmful for employment?

- In short, no, quite the opposite
- Popular belief: tax competition favours capital over labour
- Is this what has happened over the last decade?



Taxation of capital in the EU27

- Has tax competition led to lower taxation on capital?
NO



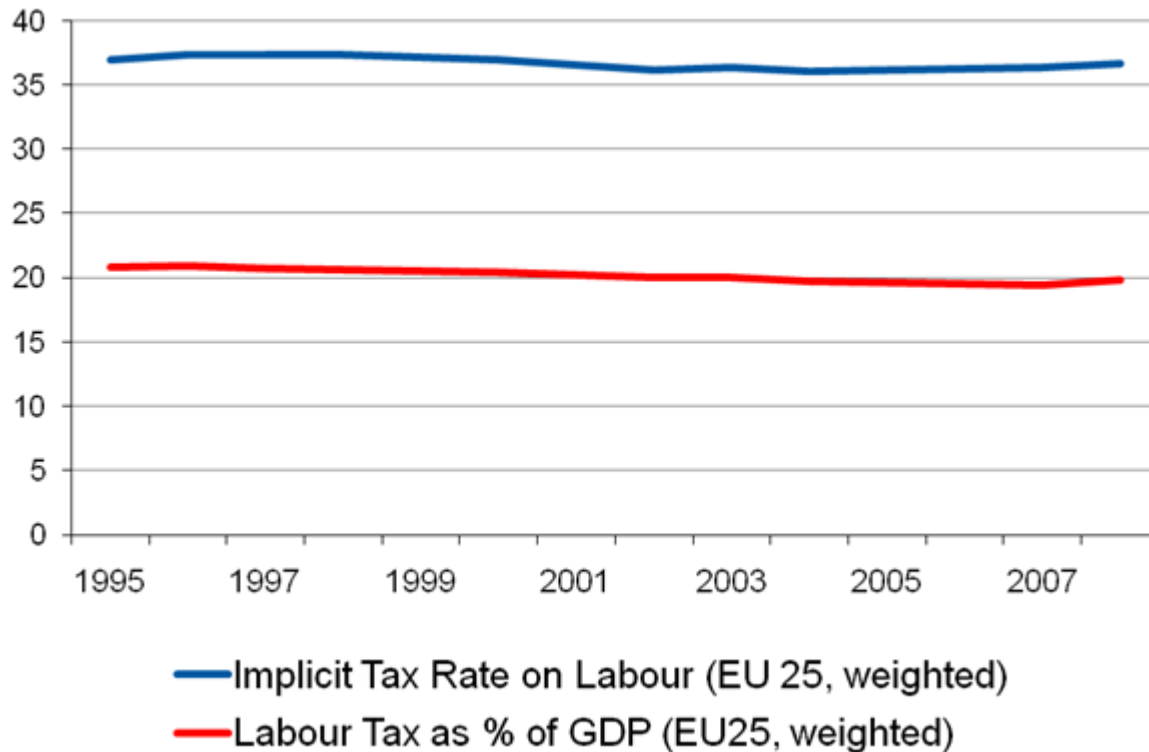
Source: Taxation Trends in the EU 2010, DG TAXUD



Taxation of labour in the EU27

- Has tax competition led to higher taxation on labour?

NO



Source: Taxation Trends in the EU 2010, DG TAXUD



Conclusion: Capital and labour taxation

- Lower taxes on capital increase the after tax rate of return on investments, encouraging new investments
- Higher investments increase the demand for labour
- This can lead to higher tax revenues, which can be used to further reduce labour taxation
- Tax Competition can actually increase the demand for labour



Tax Competition and Competitiveness

- Corporate tax competition is supportive of EU growth and jobs, rather than destructive
- Tax Competition puts a healthy pressure on government
- But no evidence that it puts public investment under pressure



Tax Competition and Competitiveness

- Companies do not decide their location on the basis of corporate taxation alone
- Tax competition is more regional than pan-European
- No evidence that tax competition could lead to zero corporate tax rates



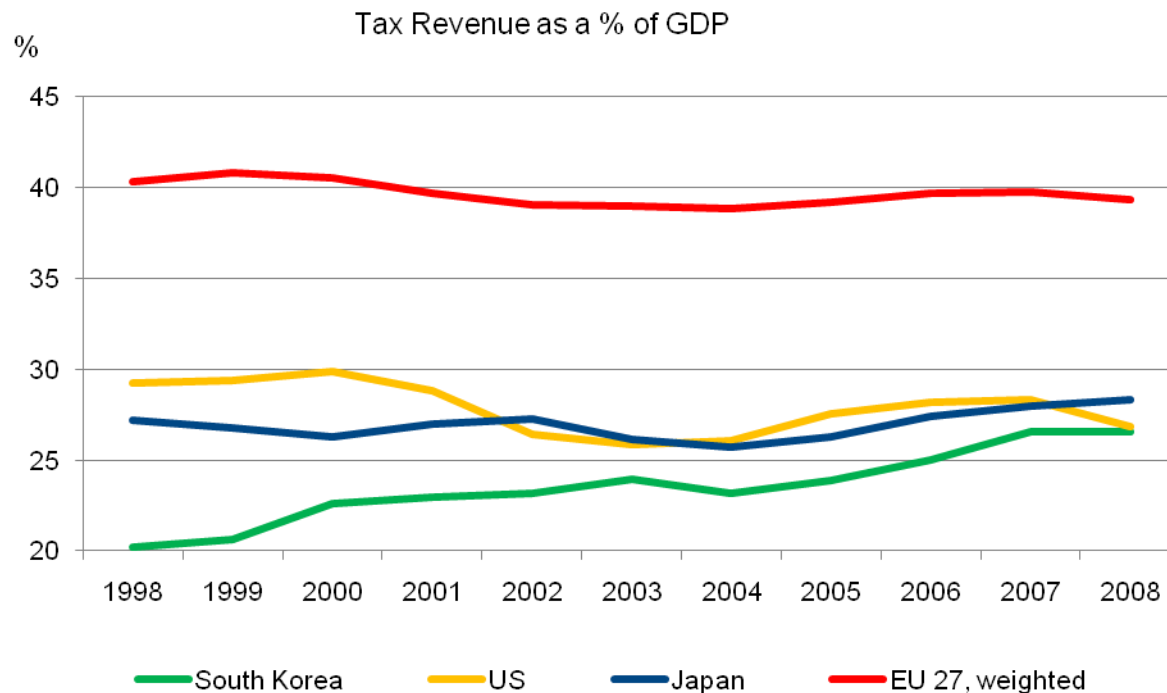
Tax Competition and the Internal Market

- EU competitiveness will not come from tax rate harmonization, but from a reduction in cross-border tax obstacles
- CCCTB = harmonized tax bases, not tax rates



Taxation in the EU in a global perspective

- Taxation as % of GDP has remained roughly stable in the EU 27
- Taxation in the EU is much higher than in our main trading partners

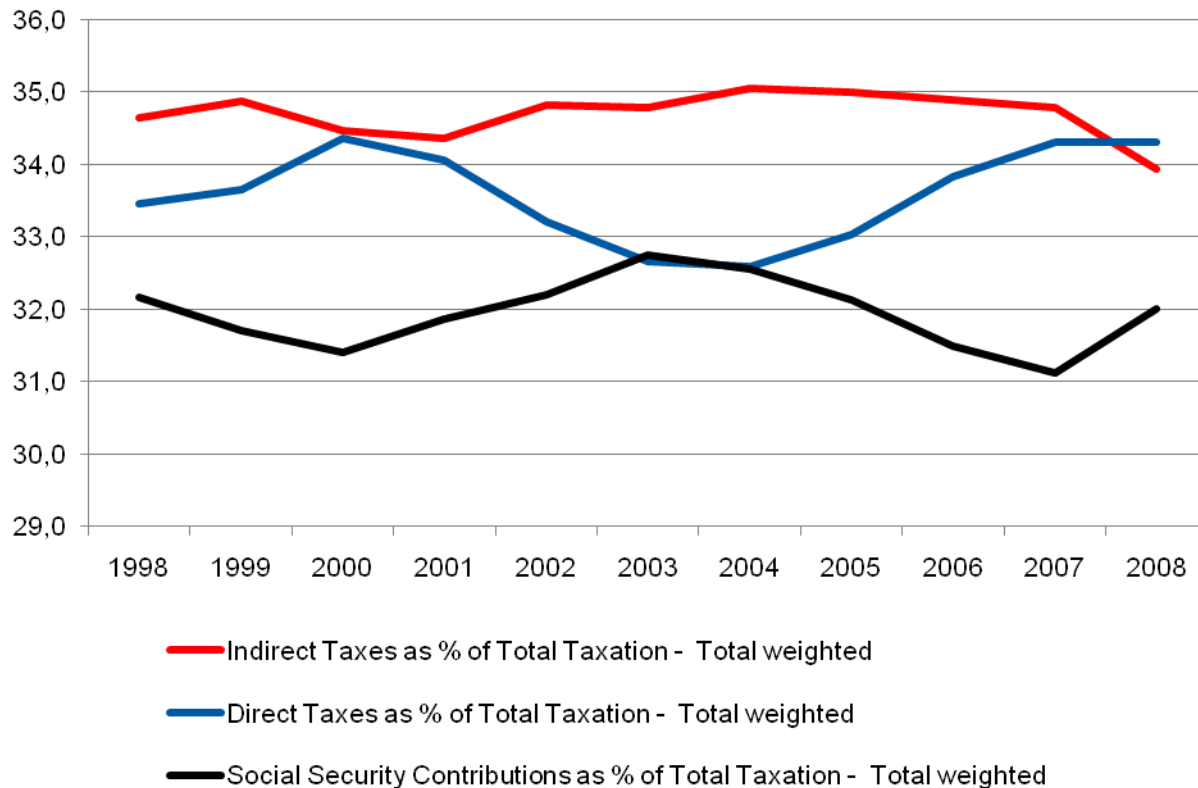


Source: OECD, Taxation Trends in the EU 2010, DG TAXUD



Types of Taxes as % of total taxation

- Direct taxes are the most distorting type of taxation for economic activity



Source: Taxation Trends in the EU 2010, DG TAXUD



Looking forward

- Use taxation to improve competitiveness and increase the quality of public expenditure:
 - Reduce the overall tax burden on the accumulation of capital and skills
 - Reduce the complexity and distortive effects of tax systems
- Growth enhancing tax reforms

