EUROPEAN ECONOMIC SENATE

Newsletter 02/2015

Dear Senators!

The European Commission has presented on the 18th of March 2015 a package of tax transparency measures as part of its ambitious agenda to tackle corporate tax avoidance and harmful tax competition in the EU. Member States should agree on the Tax Rulings proposal by the end of 2015, so that it can enter into force on 1 January 2016.

During the European Council Meeting which took place from the 19.-20th of March 2015 in Brussels EU leaders agreed to establish an Energy Union. They also discussed economic topics and external relations, the situation in Libya, relations with Russia and Ukraine, and the objectives of the upcoming Eastern Partnership summit in Riga.

This EWS-Newsletter wants to give you a summary of these two important projects at European level.

Yours sincerely,

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President	*Managing Director*	*Secretary General*

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1. Commission presents Tax Transparency Package for combatting corporate tax avoidance

The European Commission has presented on the 18th of March 2015 a package of tax transparency measures as part of its ambitious agenda to tackle corporate tax avoidance and harmful tax competition in the EU. Member States should agree on the Tax Rulings proposal by the end of 2015, so that it can enter into force on 1 January 2016. A key element of this Tax Transparency Package is a proposal to introduce the automatic exchange of information between Member States on their tax rulings.

Corporate tax avoidance is thought to deprive EU Member States' public budgets of billions of euros a year. It also undermines fair burden-sharing among tax-payers and fair competition between businesses. Companies rely on the complexity of tax rules and the lack of cooperation between Member States to shift profits and minimise their taxes. Therefore, boosting transparency and cooperation is vital in the battle against aggressive tax planning and abusive tax practices. The Tax Transparency Package aims to ensure that Member States are equipped with the information they need to protect their tax bases and effectively target companies that try to escape paying their fair share of taxes.

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"Tolerance has reached rock-bottom for companies that avoid paying their fair share of taxes, and for the regimes that enable them to do this. We have to rebuild the link between where companies really make their profits and where they are taxed. To do this, Member States need to open up and work together. That is what today's Tax Transparency Package aims to achieve."*

Transparency on Tax Rulings

The central component of the Transparency Package is a legislative proposal to improve cooperation between Member States in terms on their cross-border tax rulings and it aims to mark the start of a new era of transparency. Currently, Member States share very little information with one another about their tax rulings. It is at the discretion of the Member State to decide whether a tax ruling might be relevant to another EU country. As a result, Member States are often unaware of cross-border tax rulings issued elsewhere in the EU which may impact their own tax bases. The lack of transparency on tax rulings is being exploited by certain companies in order to artificially reduce their tax contribution. To redress this situation, the Commission proposes to remove this margin for discretion and interpretation. Member States will

now be required to automatically exchange information on their tax rulings. The Commission proposes to set a strict timeline: every three months, national tax authorities will have to send a short report to all other Member States on all cross-border tax rulings that they have issued. Member States will then be able to ask for more detailed information on a particular ruling. The automatic exchange of information on tax rulings will enable Member States to detect certain abusive tax practices by companies and take the necessary action in response. Moreover, it should also encourage healthier tax competition, as tax authorities will be less likely to offer selective tax treatment to companies once this is open to scrutiny by their peers.

Other Tax Transparency initiatives

The package also contains a communication outlining a number of other initiatives to advance the tax transparency agenda in the EU:

Assessing possible new transparency requirements for multinationals

The Commission will examine the feasibility of new transparency requirements for companies, such as the public disclosure of certain tax information by multinationals. The objectives, benefits and risks of any such initiative need to be carefully considered. Therefore, the Commission will assess the impact of possible additional transparency requirements to help inform a decision at a later stage.

Reviewing the Code of Conduct on Business Taxation

The Code of Conduct on Business Taxation is one of the EU's main tools for ensuring fair corporate tax competition. It sets out the criteria that determine whether a tax regime is harmful or not and it requires Member States to abolish any harmful tax measures that go against the Code. Member States meet regularly to assess their compliance with the Code. But over the past years, the Code has become less effective in addressing harmful tax regimes as its criteria do not take into account more sophisticated corporate tax avoidance schemes. The Commission will therefore work with Member States to review the Code of Conduct as well as the mandate of the Code of Conduct Group in order to make it more effective in ensuring fair and transparent tax competition within the EU.

Quantifying the scale of tax evasion and avoidance

The Commission, along with Eurostat, will work with Member States to see how a reliable estimate of the level of tax evasion and avoidance can be reached. There is growing evidence that evasion and avoidance are pervasive and cause significant revenue losses. However, a precise quantification of the scale and impact of these problems has not been determined up to now. Reliable statistics of the scale and impact of these problems would help to better target policy measures against them.

Repealing the Savings Tax Directive

The Commission is proposing to repeal the Savings Tax Directive, as this text has since been overtaken by more ambitious EU legislation, which requires the widest scope of automatic information exchange on financial accounts. Repealing the Saving Tax Directive will create a streamlined framework for the automatic exchange of financial information and will prevent any legal uncertainty or extra administration for tax authorities and businesses.

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2. Summary of the meeting of the European Council in March 2015

During the meeting which took place from the 19.-20th of March 2015 in Brussels EU leaders agreed to establish an Energy Union. They also discussed economic topics and external relations, the situation in Libya, relations with Russia and Ukraine, and the objectives of the upcoming Eastern Partnership summit in Riga.

Energy Union

The European Council agreed to set out the first steps of an Energy Union. EU leaders are committed to building affordable, secure and sustainable energy within the EU. At their meeting, their discussion focused on energy security and transparency in gas contracts. All gas contracts must be in line with EU law, more transparent and should not negatively impact Europe's energy security.

EU leaders also agreed to:

- Develop innovative strategies for a new generation of renewable energies and increase energy efficiency
- Step-up the EU climate diplomacy for a successful Paris climate summit in December 2015

External relations

- *Eastern partners*

EU leaders agreed on the objectives of the Eastern Partnership summit, which will take place in Riga on 21-22 May 2015. The European Council repeated its commitment to the eastern partners and set as a priority to strengthen the democratic institutions to the east.

- *Relations with Russia and Ukraine*

Leaders decided to align the existing sanctions regime to the implementation of the Minsk agreements. Economic sanctions will remain enforced until the end of 2015 when the last point of the peace plan is to be implemented: Ukraine regaining control over its borders in the east. The Council also stressed the need to challenge Russia's on-going campaign of public disinformation about the conflict in Ukraine. The EU High Representative, Federica Mogherini, will prepare an action plan on strategic communication for the June European Council.

- *Libya*

The EU remains committed to Libya's transition and the work of UN Special Representative, Bernardino Leon. EU leaders called for an immediate and unconditional ceasefire, and a rapid agreement on a Government of National Unity. The Council recognised the need to manage migration properly and to implement the actions, agreed by the Council in October 2014 to better manage migratory flows, and strengthen Triton, the Frontex Operation in the central Mediterranean. A more concerted effort is needed to increase the EU's support to the countries of origin and transit.

2015 European Semester

The European Council discussed the economic situation in Europe and the implementation of structural reforms by the member states. The leaders endorsed the three priorities of the 2015 annual growth survey:

1. Investment
2. Structural reforms
3. Fiscal responsibility

They invited the member states to reflect these priorities in their national reform programmes and stability or convergence programmes, which are expected in May 2015.

Investment plan for Europe

EU leaders welcomed the adoption of the Council's negotiating position on the proposal on the European fund for strategic investments (EFSI).

The European Council expects the negotiations with the European Parliament to be over in June 2015 to allow the fund to be up and running from mid-2015.

Transatlantic Trade and Investment Partnership (TTIP)

Leaders also discussed the state of play in the negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) agreement. They repeated their commitment to conclude the negotiations by the end of the year and to step up the efforts to communicate the benefits of the agreement.

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