

# Procedure file

Basic information		
INI - Own-initiative procedure	2021/2074(INI)	Procedure completed
The impact of national tax reforms on the EU economy		
Subject		
2.70 Taxation		
5.03 Global economy and globalisation		
5.05 Economic growth		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 <a href="#">Economic and Monetary Affairs</a>	 <a href="#">FERBER Markus</a>	22/06/2021
		Shadow rapporteur	
		 <a href="#">FUGLSANG Niels</a>	
		 <a href="#">BOYER Gilles</a>	
		 <a href="#">GRUFFAT Claude</a>	
		 <a href="#">BECK Gunnar</a>	
		 <a href="#">ZĪLE Roberts</a>	
		 <a href="#">GUSMÃO José</a>	
European Commission	Commission DG <a href="#">Taxation and Customs Union</a>	Commissioner GENTILONI Paolo	

Key events			
10/06/2021	Committee referral announced in Parliament		
06/12/2021	Vote in committee		
14/12/2021	Committee report tabled for plenary	<a href="#">A9-0348/2021</a>	Summary
14/02/2022	Debate in Parliament		
15/02/2022	Results of vote in Parliament		

**Technical information**

Procedure reference	2021/2074(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/9/06223

**Documentation gateway**

Committee draft report	<a href="#">PE695.102</a>	13/09/2021	EP	
Amendments tabled in committee	<a href="#">PE697.827</a>	28/10/2021	EP	
Committee report tabled for plenary, single reading	<a href="#">A9-0348/2021</a>	14/12/2021	EP	Summary
Text adopted by Parliament, single reading	<a href="#">T9-0023/2022</a>	15/02/2022	EP	Summary
Commission response to text adopted in plenary	<a href="#">SP(2022)192</a>	13/06/2022	EC	

## The impact of national tax reforms on the EU economy

The Economic and Monetary Affairs Committee adopted an own-initiative report by Markus FERBER (EPP, DE) on the impact of national tax reforms on the EU economy.

Although tax policy is largely the responsibility of the Member States, the single market requires harmonisation and coordination in tax policy-making in order to increase the integration of the single market and prevent base erosion.

### (1) Impact on small and medium-sized enterprises (SMEs)

While the costs of compliance with tax obligations are estimated for large multinational companies to be around 2% of taxes paid, for SMEs this is estimated around 30%. Furthermore, the profits of multinational enterprises tend to be taxed less than those of equivalent domestic enterprises.

The report pointed out that differences in national tax regimes can act as barriers to SMEs trying to operate across borders, as SMEs have fewer resources than multinationals to devote to tax compliance and optimisation.

Members considered that harmonisation of the tax base, such as the common corporate tax base, could reduce compliance costs for SMEs operating in more than one Member State. They reiterate that taxing profits in the country where the economic activities take place would enable governments to offer a level playing field to their SMEs.

Members also stressed the need to tax companies using a fair and effective formula for allocating taxing rights between countries, taking into account factors such as the workforce and the existence of tangible assets. They called on Member States to rapidly agree on an ambitious proposal for a European corporate tax code.

The report noted that many Member States and the EU have introduced dedicated regimes that favour SMEs. Members considered that such special treatment, if utilised extensively, while generally positive, could risk introducing further distortions and further possibilities of aggressive tax planning, and could further increase the overall complexity of the system. Member States are urged to design tax benefits for SMEs in a way that is consistent with the overall tax regime and does not encourage SMEs to stay small.

### (2) Harmonisation and coordination of tax policies

Members pointed out that the EU has developed coordination mechanisms such as peer review procedures within the Code of Conduct Group (CoC) and country-specific recommendations in the context of the European Semester. They considered that both of these mechanisms need to be further improved.

The report noted the limits of the current decision-making process in the Council to meet legislative needs when it comes to promoting coordination between Member States and tackling harmful tax practices. It called for the full potential of the TFEU Treaty to be explored. It also stressed that the ideal level of coordination of tax policies to ensure maximum impact is the international arena, through the G20/OECD, recalling that EU tax proposals based on international agreements have always been more likely to be adopted by the Council.

### (3) Recommendations and areas for reform

The report stressed that in areas of high importance for the functioning of the single market, such as taxation and the capital markets union, more harmonisation is warranted either through better Member State coordination or EU action. The reforms should focus on the following key

areas:

#### Debt equity bias

Members deplored the debt equity bias in corporate taxation that allows for generous tax deductions on interest payments, while equity financing costs cannot be deducted in a similar manner, making debt financing relatively more attractive than equity financing. They recalled that these incentives can be reduced either by allowing a further deduction of equity financing costs or by reducing the possibilities for interest deductions. They look forward to the Commission's proposal for a debt equity bias reduction allowance.

#### Competing marginal effective tax rates

The report noted that the marginal effective tax rate can be a key factor for companies making investment decisions. Given the considerable differences in marginal effective tax rates between Member States, Members called on Commission to investigate whether some Member States distort competition by artificially lowering their marginal effective tax rates, for example through accelerated depreciation schedules or by adjusting the tax deductibility of certain items, and to communicate its results to Parliament.

#### Tax incentives for research and development

While stressing that tax incentives for research and development comes with obvious benefits to society and the economy, Members are concerned that certain types of tax incentives, such as patent or intellectual property tax regimes, do little to increase spending on research and development and may in fact distort the single market by encouraging profit-shifting and aggressive tax planning.

Members called on the Commission to propose guidelines on tax incentives that are not distortive for the single market. They stressed that further harmonisation regarding tax incentives for research and development spending may be warranted.

#### EU taxation scoreboard

Noting the Commissions ongoing work on an EU tax scoreboard, Members stressed that the scoreboard should contribute to the fight against harmful tax competition and take into account the considerable public revenue losses imposed by national tax policies that are facilitating tax avoidance. The tax scoreboard should be built as an instrument to help Member States perform sound and robust reforms on tax matters.

## The impact of national tax reforms on the EU economy

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The European Parliament adopted by 469 votes to 94, with 137 abstentions, a resolution on the impact of national tax reforms on the EU economy.

Although tax policy is largely the responsibility of the Member States, the single market requires harmonisation and coordination in tax policy-making in order to increase the integration of the single market and prevent base erosion.

#### (1) Impact on small and medium-sized enterprises (SMEs)

Members considered that tax policy fragmentation creates various obstacles for citizens and companies in the single market, particularly small and medium-sized enterprises (SMEs), including legal uncertainty, red tape, the risk of double taxation and difficulties claiming tax refunds.

The costs of compliance with tax obligations are estimated for large multinational companies to be around 2% of taxes paid, for SMEs this is estimated around 30%. Some Member States have developed schemes that would tax profits made in an international context at a lower rate than the national nominal rate, thus putting SMEs at a competitive disadvantage.

The resolution pointed out that differences in national tax regimes can act as barriers to SMEs trying to operate across borders, as SMEs have fewer resources than multinationals to devote to tax compliance and optimisation.

Members considered that harmonisation of the tax base, such as the common corporate tax base, could reduce compliance costs for SMEs operating in more than one Member State. They reiterated that taxing profits in the country where the economic activities take place will allow governments to offer a level playing field for their SMEs. They highlighted the need to tax corporations using a fair and effective formula for the allocation of taxing rights between countries and called on Member States to swiftly agree on an ambitious proposal for a European corporate tax rulebook.

The resolution also noted that many Member States and the EU have introduced dedicated regimes that favour SMEs. Members considered that such special treatment, if utilised extensively, while generally positive, could risk introducing further distortions and further possibilities of aggressive tax planning, and could further increase the overall complexity of the system. Member States are urged to design tax benefits for SMEs in a way that is consistent with the overall tax regime and does not encourage SMEs to stay small.

#### (2) Harmonisation and coordination of tax policies

Parliament welcomed that the EU has developed coordination mechanisms such as peer review procedures within the Code of Conduct Group (CoC) and country-specific recommendations in the context of the European Semester. It considered that both of these mechanisms need to be further improved.

Parliament noted the limits of the current decision-making process in the Council to meet legislative needs when it comes to promoting coordination between Member States and tackling harmful tax practices. It called for the full potential of the TFEU Treaty to be explored. It also stressed that the ideal level of coordination of tax policies to ensure maximum impact is the international arena, through the G20/OECD, recalling that EU tax proposals based on international agreements have always been more likely to be adopted by the Council.

The Commission and the Member States are called on to work together and ensure the transposition into EU law of the OECD/G20 Inclusive Framework agreement which suggests that multinational enterprises be subject to a 15 % effective tax rate.

#### (3) Recommendations and areas for reform

The resolution stressed that in areas of high importance for the functioning of the single market, such as taxation and the capital markets union, more harmonisation is warranted either through better Member State coordination or EU action. The reforms should focus on the following key areas:

#### Debt equity bias

Members deplored the debt equity bias in corporate taxation that allows for generous tax deductions on interest payments, while equity financing costs cannot be deducted in a similar manner, making debt financing relatively more attractive than equity financing. The debt equity bias might incentivise companies to take on too much debt.

Given that debt equity bias varies considerably between the Member States, Members consider that a common European approach would be preferable in order to avoid distortions within the single market.

Members also look forward to: (i) a Commission proposal which should aim to ensure a more consistent determination of tax residence within the single market and (ii) a legislative initiative proposal for the introduction of a common, standardised, EU-wide system for the reduction of withholding tax at source.

#### Competing marginal effective tax rates

The resolution noted that the marginal effective tax rate can be a key factor for companies making investment decisions. Given the considerable differences in marginal effective tax rates between Member States, Members called on Commission to investigate whether some Member States distort competition by artificially lowering their marginal effective tax rates, for example through accelerated depreciation schedules or by adjusting the tax deductibility of certain items, and to communicate its results to Parliament.

#### Tax incentives for research and development

While stressing that tax incentives for research and development comes with obvious benefits to society and the economy, Members are concerned that certain types of tax incentives, such as patent or intellectual property tax regimes, do little to increase spending on research and development and may in fact distort the single market by encouraging profit-shifting and aggressive tax planning.

Parliament called on the Commission to propose guidelines on tax incentives that are not distortive for the single market. It stressed that further harmonisation regarding tax incentives for research and development spending may be warranted.