Fiscal policy

Resolution of the Economic and Social Commission (Brussels - 9 December 1999) adopted by the Brussels Central Council (10 December 1999)

Introduction

Installation of the European Monetary Union has intensified the transparency and competition not only among business firms and financial institutions, but also among governments wishing to maintain their tax revenue base in the framework of community principles of cohesion.

ELEC rightfully defends budgetary discipline by governments, which is needed to consolidate the common currency and co-ordinate tax policies which will lower the burden on business firms and individuals.

ELEC upholds the following principles in the context of the EU's fiscal policy:

ELEC affirms that the EU needs a competitive fiscal policy in order to remain competitive with the rest of the world. It must refrain from imposing limits that may discourage foreign investors. If within the EU the Member States should take care to harmonise and co-ordinate their fiscal policies, ELEC stresses that this should lower both personal and corporate taxes whilst maintaining and reinforcing the competitiveness of the economic actors - both firms and individuals - inside the EU itself. There are a few fiscal domains where pure competition leads to unequal fiscal practices and excessive distortions inside the common market which could adversely affect the tax base of other partner countries.

I. Taxation of personal income

In the context of the debate to coordinating taxes on savings, ELEC affirms that the long-term objective should be to protect savings and to ensure that individuals shall be able to invest their savings throughout the EU but pay the taxes on their securities in the country in which they are residents. This is how the real problem of tax havens within the EU can be made to disappear.

The first step in gradually achieving this objective is to lay down the primary elements that will underpin the future policy on taxing individual savings.

The following principles should thus be retained:

- ◇ Discrepancies in taxing income from work and income from capital gains should be phased out. This would lower taxes on work income and reinforce taxation of capital gains in countries where this would be justified. These tax harmonisation measures should be taken in all the EU countries to avoid tax evasion from one member state to another.
- ◇ All citizens must be called on to pay taxes, in order to ensure solidarity in this area instead of opposition.
- ◇ The new taxation should not benefit one type of income over another: neither fixed or variable income.
- ◇ Taxes on dividends and interests in other Member States should be deductible in the taxpayer's country of residence.

- ◇ Popular savings schemes should be oriented preferably towards compiling pension funds which, in an ageing Europe, would ensure a supplement to the legal social security. Tax incentives linked to savings (savings account, etc.) should give way progressively to tax incentives that encourage pension funds.
- ◇ Bank secrecy is linked to inheritance taxes and taxes on fortunes. Greater transparency can only be achieved through gradual harmonisation of these direct and indirect taxes and their reduction when they appear to be excessive.
- ◇ Such a fiscal policy should fit in with greater efforts made by the EU's partners (third countries) in the framework of the world economy.

ELEC is aware that these objectives must be attained in the long-term, and concurs that a <u>first step</u> could be achieved by introducing - in accordance with a Commission proposal (Monti proposal) - an advance payment on capital gains, for example 15% maximum, in all EU countries for capital held by individuals residing in the EU.

The question of euro bonds could be resolved by a particular scheme for third country institutions and nationals.

II. <u>Corporate taxation</u>

As regards corporate taxes, the ELEC Central Council is concerned with the excessive burden and discrepancies in the taxation of certain countries, as well as the adverse affect of these forms of double taxation. ELEC would like to see each State take the appropriate measures to do away with these divergences.

Furthermore, in efforts to avoid discriminatory practices, the Central Council noted the ongoing work to apply the code of conduct adopted by ECOFIN at its 1 December 1997 meeting.

ELEC points out that the diversity of tax regimes hampers firms with business in several countries; a global approach in this area needs to be studied. Moreover the adoption of an adequate tax regime would be conducive to the desired adaptation of a European firm status.

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