

Tax Policy Update

29 April – 10 May

HIGHLIGHTS

- Commission and Parliament candidates see tax as an electoral priority
- Romanian Presidency hopes an agreement possible in June on VAT scheme for SMEs
- New VAT scandal emerges with Grand Theft Europe revealing EUR 50 billion lost to fraud

European Commission

Commission President candidates keep tax high on agenda – 29 April /7 May

The lead candidates for the European Commission presidency have held a number of election debates during which taxation consistently emerged as a major topic.

During the so-called Maastricht Debate on 29 April, **Frans Timmermans** (social-democrat), **Bas Eickhout** (green) and **Violeta Tomić** (far-Left) all called for a digital tax on internet giants. Standing out from the crowd but unsurprisingly, **Jan Zahradil** (Euro-sceptic nationalist) rejected calls for a EU digital tax, insisting that this is a matter for Member States.

At another debate on 7 May between the leading candidates Frans Timmermans and **Manfred Weber** (centre-Right) also saw differences in tax positions. Timmermans supported a tax on CO2 emissions, Weber opposed. Both agreed that flying should be made more expensive through tax but using different means: Timmermans wants to raise taxes on flying, Weber wants to end tax exemptions for jet fuel.

Either way, it is significant that tax features so highly in the debates between leading European candidates.

European Commission approves petition proposal for flight taxes – 30 April

The Commission has [approved](#) a petition proposal calling on the EU to put a tax on flight fuel. The Commission assesses that the petition's proposal is in line with EU law, as EU Treaties allow the Commission to harmonise turnover taxes, excise duties and other forms of indirect taxation – subject to the approval of Member States.

The petition organisers will now have to collect 1 million signatures from at least 7 different Member States within a 1-year period. If this succeeds, the Commission will then analyse the petition and react to it within 3 months. The Commission can at that point decide either to follow the request or not, and in both instances would be required to explain its reasoning.

Commission plans to evaluate how its tax dissemination tools function - 7 May

The European Commission plans to evaluate how well its communication and research tools on tax matters function. It has published a so-called [Roadmap](#) that provides the rationale and timeline for this evaluation process.

These tools include Commission's tax databases, reports on taxation trends and tax policies across the EU, and various other taxation papers. A public consultation is estimated for end-2019 to early-2020.

Commission prioritises ongoing **TAX FILES AHEAD OF EU LEADERS' SUMMIT** - 8 May

The EU's heads of government have gathered in Sibiu, Romania, to discuss the EU's next strategic priorities. In preparation for this summit, the European Commission circulated [documents](#) to frame the leaders' discussions. The documents list tax as one of the main topics for discussion.

One of these documents [focuses](#) specifically on tax. It lists the already proposed and ongoing tax files that the Commission considers very important to conclude. These include public country by country reporting (CBCR), CCCTB, digital taxation and abandoning unanimity in tax decision-making.

Commission publishes new studies on VAT refunds across Europe - 10 May

The Commission has published two new studies on the functioning of the EU's VAT refund system.

The [first study](#) focuses on the conformity of national legislations both with the Directive for cross-border intra-EU refunds and with Court of Justice of EU (CJEU) case law related to domestic refund.

The [second study](#), for its part, analyses the level of implementation of the law and tries to identify and quantify the consequences of such implementation. In doing so, it highlights challenges that taxpayers, VAT refund agents and tax administrations face with the system of claiming VAT refund of both in the Member State of establishment and in another Member State.

Commission: flight taxes will not endanger jobs - 12 May

According to a leaked European Commission document, prospective aviation taxes would not have a meaningful negative impact on the aviation sector and jobs.

The document assesses that a EUR 330 tax per thousand litres of jet fuel would increase flight ticket prices in the EU by approximately 10%, or to an average of EUR 333. Moreover, the document assesses that such a tax would also cut by 11% the annual flight passenger numbers to 613 million.

The document also concludes that although the tax could lead to an 11% decrease in jobs in the aviation sector, **its impact on the EU's overall employment would be negligible**. The Commission is about to finalise and publish a study on the matter.

European Parliament

EUROPEAN PARLIAMENT'S Political Groups see tax as a priority – May

The European Parliament's various political Groups have published their electoral manifestos, ahead of the EU elections on 23-26 May. Common to most of them across ideological boundaries, taxation features high among the priorities.

It is clear from the manifestos that taxation will occupy a fairly prominent place in the European Parliament election campaigns – something that has already been visible on the ground. This will no doubt also translate to continuous focus on tax matters in the future European Parliament.

Conservatives support a digital tax

The conservative EPP-Group takes the tax state aid angle in its [manifesto](#) by emphasising that “big corporations” should not be granted tax breaks or benefit from loopholes that are not available to others.

Most strikingly, however, EPP calls for a “fair tax distribution” in a digital environment through the introduction of a Digital Fair Tax (DFT) to finance digital infrastructure and future investments in Europe.

And finally, the Group vouches to tackle tax evasion internationally and to eliminate “tax havens” whilst ensuring “transparency and fairness” for all EU Member States.

Social -democrats call for more tax justice

In their [manifesto](#), the Party of the European Socialists (PES) vouch to fight for “tax justice and will continue to lead the fight against tax evasion, tax avoidance and aggressive tax planning”.

The manifesto underlines the importance of a common European approach to ensuring a “proper level” of effective taxation and to curtail downward tax competition. It also re-iterates the principle of profits being taxed where they are generated.

Greens want to tax pollution instead of labour

Perhaps not surprisingly, the Greens Group [manifesto](#) puts great emphasis on reforming the tax system so that it incentivises a green transition in the economy whilst disincentivising environmentally harmful activities.

Their proposals include to introduce a European flight tax, new taxes on the extraction and import of raw materials, and taxing pollution whilst cutting taxes on labour.

Their other tax priorities, beyond sustainable taxes, include to close loopholes, fight against tax havens both within and outside of the EU, introducing a CCCTB as well as a minimum corporate tax rate. The manifesto also reiterates the need for public country by country reporting (CBCR), digital taxation as well as a financial transaction tax (FTT).

Liberal s holding back, Euroseptics insist on national sovereignty

The liberal ALDE Group's [manifesto](#) is strikingly silent on all things tax, with the exception of appearing to align with the Greens' proposal to put an end to “obsolete fuel tax exemptions”.

And finally, the Eurosceptic Alliance of Conservatives and Reformists (ACRE) Group remains true to its principles, as its [manifesto](#) simply underlines that the Single Market should not be used as a pretext for tax harmonisation.

Council

Romanian Presidency hopes to find agreement on VAT scheme for SMEs by June - 6 May

The Romanian Presidency of the Council is striving to reach an agreement at the June ECOFIN meeting on the Commission [proposal](#) on VAT simplifications for SMEs.

The Presidency had initially hoped that an agreement would already be possible at the 17 May ECOFIN, but this is now looking unlikely due to reservations from at least Germany, the Netherlands, Ireland and the UK.

The thresholds appear to be the main source of disagreement between. For example, the Commission proposed an EUR 85,000 EU-wide threshold up to which supplies of goods and services by SMEs in their home country may be exempt from VAT. Some Member States find this threshold to be too low, whilst for others it is too high.

Member States also disagree on the transposition deadline, which the Commission initially set at 1 July 2022. The Romanian Presidency proposes instead to postpone the date of application to 1 January 2024, but some countries would like to extend the deadline further until 1 January 2025, and one Member State even until 1 January 2026.

The proposals would bring significant administrative alleviations for SMEs and might help boost the sector.

EU Member States struggle to find common voice on digital tax at OECD - 7 May

Following the failure of EU Member States to agree on the Commission's digital services tax (DST) at the March ECOFIN, the Commission has shifted focus to trying to develop a common EU position on digital tax for OECD discussions.

The 17 May ECOFIN will host a discussion between EU Finance Ministers to this regard, but right now there are difficulties in the horizon. The EU Member States are currently divided into two categories: the first one wants the EU to be proactive in the OECD discussions and shape the debate. The second category – which also includes Ireland, Sweden, Finland and Denmark – believes that any EU-level coordination should only be focused on implementation after the OECD has delivered.

Court of Justice of the EU - Rulings

C-265/18: VAT and SMEs ruling - 2 May

[Link](#)

C-133/18: VAT - 2 May

[Link](#)

C-225/18: deduction of input tax - 2 May

[Link](#)

C-224/18: Chargeable event and chargeability of a tax - 2 May

[Link](#)

C-598/17: Refund of dividend tax – 2 May

[Link](#)

C-127/18: Principles of fiscal neutrality and proportionality – 8 May

[Link](#)

C-712/17: VAT liability of an invoice issuer – 8 May

[Link](#)

International

German government warming to carbon tax – 28 April

Germany is considering tax-based carbon emission pricing after the Christian Democrats and Social-Democrats [reached](#) an agreement on the subject.

The aim of the proposal is to render CO2 emitting activities more expensive whilst making electricity generated from renewable sources cheaper. These measures would be complemented by tax cuts in other areas of the economy, so that the net tax burden does not change.

Czech Republic plans 7% national digital tax – 30 April

The Czech Finance Ministry has [announced](#) a new legislative proposal to tax global internet giants. This means that Czechia will follow the path of an increasing number of EU countries introducing such national digital taxes.

The planned Czech proposal would introduce a 7% tax on placing targeted advertising on digital interfaces. The turnover threshold and scope of the proposal is still to be determined, and the legislation should not be implemented before mid-2020 at least, thus aligning it to the OECD's timeline.

Spain's **RE**-elected government seeks to Raise Billions in Taxes – 1 May

The re-elected socialist government of Spain, led by Prime Minister **Pedro Sanchez**, has [announced](#) increases to corporate and income taxes, as well as the introduction of a digital tax on online services.

The net effect on revenue is [expected](#) to be EUR 1.7 billion from cutting corporate tax exemptions, EUR 1,2 billion from a levy on digital services and EUR 850 million from a levy on the financial transactions. Overall, the government intends to increase taxes by more than EUR 20 billion.

Grand Theft Europe: new tax leak scandal emerges – 7 May

A German NGO called Correctiv has launched the Grand Theft Europe (GTE) [project](#), which brings together 35 media organisations from 28 EU Member States, Norway and Switzerland.

Correctiv has published several reports as part of the GTE project revealing that EUR 50 billion are misappropriated each year by criminals who commit VAT carousel fraud.

The report argues that the main culprit are the loopholes in VAT systems and a lack of effective international cooperation. For example, the relevant Maltese authorities lack resources and staff, making Malta a particularly vulnerable to VAT fraud. Corrective also blames the lack of political will in EU Member States, inter-agency rivalry between relevant authorities and mistrust between Member States.

The European Commission has [reacted](#) to the news with anger, and underlined the importance of reaching an agreement on **EU's VAT files** – especially the definitive regime proposal which remains blocked by German opposition and a lack of enthusiasm by many others. Commissioner Moscovici took the opportunity to insist on the need to abandon unanimity decision-making on EU's tax files.

State Aid

Commission publishes decision to investigate Luxembourg's tax treatment of Huhtamäki – 3 May 2019

The European Commission has published the [non-confidential version](#) of its 7 March 2019 [decision](#) to open an in-depth investigation into Luxembourg's tax treatment of Huhtamäki.

The Commission has concerns that three tax rulings granted by Luxembourg to the Finnish food and drink packaging company may have allowed it to pay less tax and, thereby giving it an unfair advantage over its competitors in breach of EU State aid rules.

Other News

Alliance of European NGOs calls on new European Parliament to revamp the tax system – 10 May

An alliance of European NGOs has [published](#) 5 tax pledges that they will ask European Parliament candidates to sign up to.

The pledges include, notably, public country by country reporting (CBCR), a minimum effective corporate tax rate and the establishment of a UN tax commission.

The pledge will be sent to the election candidates in the course of the week of 13 May, and progress on the signatories can be tracked on the [project's website](#).

MEP Questions & Answers

Uniform implementation of VAT Directive – 30 April

- [Question](#) by MEP Cătălin Sorin Ivan (Independent/Romania)
- [Reply](#) by Commissioner Moscovici

Events

- 16/05/2019, *Future of taxation in the EU*, Bruegel, Brussels. [Source](#)
- 06/06/2019, *Creating Tax Certainty in an Uncertain World*, CFE, Brussels. [Source](#)
- 26/06/2019, *Corporate governance: A driver of a sustainable economy*, Accountancy Europe, Brussels. [Source](#)