

TAX HARMONIZATION IN EU

The Theoretical Background of The Harmonization Argument

- In a world of capital mobility, taxes and incentives are an important market.
- Capital is mobile, it would be superior to tax mobile factors of production based on mobile capital.
- What happens if energy instead of resources are fixed?
- Agreements about tax harmonization based on tax competition.

Tax Policy Coordination in The EU from The Beginning

Harmonization of Corporate Taxation

1990: Council Directive on the coordination of laws, regulations, administrative provisions and practices relating to the taxation of the profits of companies (90/269/EEC)

Harmonization of Excise Taxes

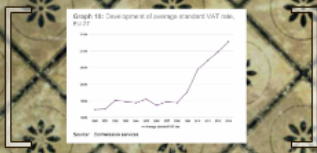
1992: Council Directive on the approximation of the laws, regulations, administrative provisions and practices relating to the excise duties on alcohol, tobacco and certain other products (92/100/EEC)

What Does 'Tax Harmonization' Mean?

- Harmonization of indirect taxes (eg. VAT and duties)
- Harmonization of direct taxes (eg. Income tax and corporation tax)

Conclusion

- The battle between tax competition and tax harmonization is really a fight about whether government will control the factors of production.
- Tax harmonization policies are needed to reduce evasion, but there are two ways to improve tax compliance.
- Tax competition is the only realistic hope for German taxpayers, French taxpayers and Swedish taxpayers.



Does EU Need Tax Harmonization?

- Like it or not, tax harmonization, a core element on the road towards more economic union, seems to be advancing again at EU level.
- There is the seemingly growing momentum behind the financial transaction tax (FTT) in EU legislative bodies, although the bluntness of the measure and its procedure, i.e. enhanced cooperation, leave much to be desired.

Taxation Policy & The Lisbon Strategy

- European citizens are faced with a number of issues and very different national perspectives on taxation in the EU.
- The Commission is currently preparing a Communication that will present the key Community taxation and customs policy measures that would contribute to fulfilling the Lisbon strategy.

Gizem OKSUZ
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TAX HARMONIZATION IN EU

The Theoretical Background of The Harmonization Argument

- In a world of capital mobility, users do not move, but in an integrated market
- Factor is sufficient, it could be superior to tax, create factors of production instead of mobile capital
- Hot topics: if usage, instead of investment, are taxed
- Agreements occur for harmonization instead of tax competition

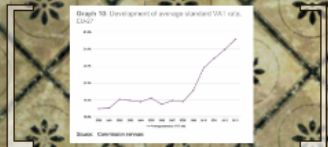
Tax Policy Coordination in The EU From The 'beginning'

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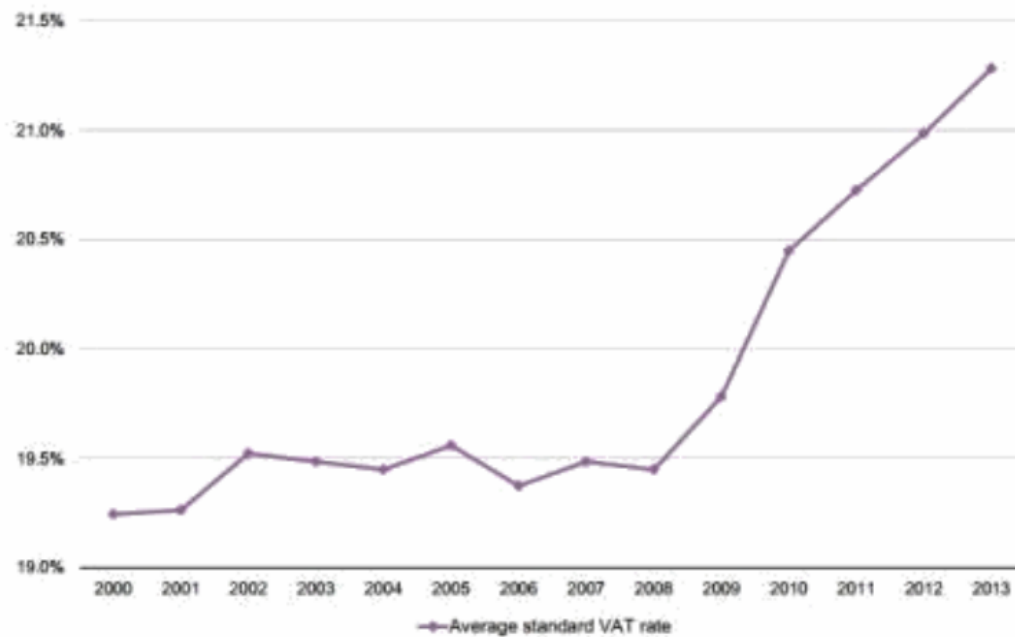
The image features the European Union flag, which consists of twelve yellow five-pointed stars arranged in a circle on a blue background. A red triangle is superimposed over the center of the flag. A black diagonal banner with white text is placed over the triangle. The text reads "Taxation in EU".

Taxation in EU

What Does Tax Harmonization Mean?

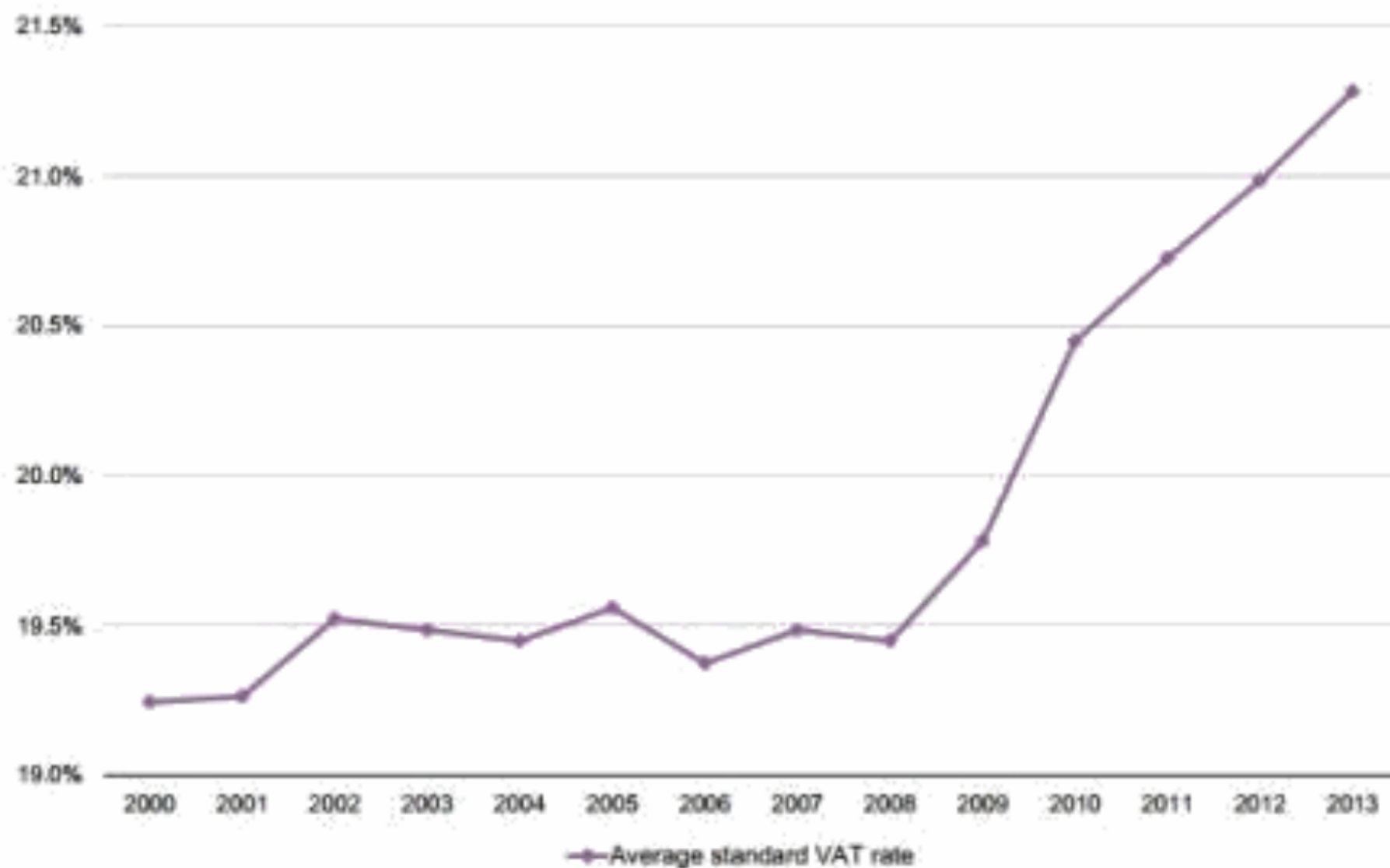
- Harmonization of indirect taxes e.g. VAT and duties
- Harmonization in direct taxes e.g. income tax and corporation tax

Graph 10: Development of average standard VAT rate, EU-27



Source: Commission services

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The Theoretical Background of The Harmonization Argument

- In a world of capital mobility savers and investors act on an international market.
- Taxation is inefficient; it would be superior to tax immobile factors of production instead of mobile capital.
- What happens if savings instead of investment are taxed?
- Governments choose tax harmonization instead of tax competition.

Tax Policy Coordination in The EU From The Beginnings

Harmonization of customs and indirect taxes

Indirect taxes, like value added tax, excise duties and customs are levied on the turnover of products or services; therefore, these levies are able to hinder the free circulation of the products and services in an internal market established by the EEC.

Harmonization of direct taxes

direct taxes (personal income tax, corporate income tax), capital tax and social security contribution should be paid on income and capital flows; so, these may prevent the free movement of persons (natural or juridical) and the free movement of the capital.