Response to the Roadmap for more efficient law-making in the field of taxation: identification of areas for a move to qualified majority voting

The European Commission (EC) has prepared a Roadmap for more efficient law-making in the field of taxation: identification of areas for a move to qualified majority voting. The aim of the proposal is to explore possibilities for removing the need for unanimous agreement by all countries and moving to qualified majority voting in taxation, i.e. deciding on tax matters by a weighted system ("qualified majority voting") where measures can be carried if supported by a minimum number of EU countries, representing a minimum share of the EU population.

There are a number of reasons to suggest that moving to qualified majority voting in taxation will undermine the competitiveness of the European Union and bring negative consequences for economic, societal and technological development.

The authors of the proposal for moving to qualified majority voting in taxation claim that this will:

- increase Member States capacity to raise revenues to finance expenditures programmes in line with their national preference,
- remove part of the obstacles to effective Single Market in taxation, and
- allow the EU to keep pace with rapid economic, societal and technological development.

There are multiple reasons to suggest though that moving to qualified majority voting in taxation is not the best tool to achieve these objectives.

Moving to qualified majority voting in taxation would eliminate tax competition among countries, and this would have adverse effects on economic, societal and technological development.

National sovereignty over tax matters is a fundamental principle of the European Union that enable the existence of tax competition. A diversity of tax systems is not a roadblock for the Single Market or free trade. Quite the opposite, differences in the tax regimes might serve as a stimulus to trade. Taxes constitute a significant share of costs and a large share of the price of factors of production, labour in particular. It is tax diversity, which is usually determined by the necessity to accommodate to local conditions and traditions, that frequently makes it possible to produce cheaper goods and services and to offer them on the international market, thus increasing the economic, societal and technological development of the whole EU.

Countries have always competed using their exogenous factors (e.g. the amount of land, population, proximity to waterways, etc.) as well as endogenous ones (e.g. the level of corruption, political stability, the level of bureaucracy and taxation). Tax competition is no different from competing for investment by cutting red tape, lowering bureaucracy and other factors that depend on national governments. Further tax harmonization, which would be facilitated if qualified majority voting in taxation were established, would reduce the pressure on national authorities to maintain an efficient and competitive tax policy. Member

States would become more dependent on the EU to impose EU-wide rules and regulations in the field of taxation.

Moving to qualified majority voting in taxation would be unfair to countries that have sound fiscal policies.

The Roadmap states that "unanimity in taxation is an obstacle to efficient decision-making" and that unanimity was easier to achieve "at a time when there were fewer Member States". This shows a worrying attitude of EU decision makers, not only towards the new Member States (which are seen as an obstacle to the Single Market), but towards the decision-making process itself. Even if it was easier to achieve the unanimity on common tax policy in the past, there is no evidence that it was solely due to a lower number of Member States. Certain issues might actually have been more important for EU citizens. They might have advanced the Single Market or alleviated the tax burden for the EU taxpayers, therefore receiving a broad-based support from the public in all EU Member States. In other words, the fact that it is harder to achieve a unanimous vote does not call for changes of the procedure. It calls for better policies that would reflect the values, expectations and needs of the citizens of the EU.

The abolition of the unanimity rule, which is targeted at direct taxation or the taxation of profits and income and goes directly against tax competition, presents a big threat to those Member States that have been effective in advancing their competitiveness and attracting foreign investment due to their favourable tax regimes. The abolition of the unanimity rule would allow the countries which are not tax competitive due to their flawed fiscal policies to impose rules on countries that are fiscally sound and can offer better tax conditions for workers and companies.

Moving to qualified majority voting in taxation may increase the tax burden for a significant share of the EU taxpayers.

The Roadmap claims that "[o]ther recent achievements, such as tax transparency measures and anti-abuse rules, were largely fueled by the public and political reaction to high-profile tax scandals, rather than by a common vision on how EU tax policy should advance." This statement, however, is not supported by evidence. Negative public and political reactions to certain developments in the area of taxation might stem from different expectations regarding fiscal policy developments of Member States and the EU. Moreover, claims that EU citizens demand these proposed changes would be insincere. Many EU citizens are outraged at the existing high levels of taxation, yet no initiatives at the EU level have been proposed to reduce the tax burden. Even more, given the common discontent against Brussels-centric decision-making, one could argue that the proposal for moving towards qualified majority voting comes at a very unfavorable time.

EU lawmakers might see certain developments, such as CCCTB, ATA or even traditional EU tax policies, such as VAT base rules or minimum rates on excise products, as positive developments. However, such policies also involve negative consequences. For example, some recent proposals, such as CCTB, would create considerable compliance costs in the transition period, especially for SMEs operating within the market of only one Member State, as in case of Lithuania.[1] It must be admitted that many developments regarding common tax policy in the EU are inflating the tax burden or increasing it by setting the threshold for certain tax rates, which might be unfavorable for certain Member States given their level of economic development or other individual characteristics.

It is argued that unanimity in taxation is partially to be blamed for the situation in which Member States are increasingly constrained in their capacity to raise revenues to finance expenditures programmes in line with their national preferences. It seems that one of the aims of moving to qualified majority voting in taxation is to ease such constraints, thus allowing Member States to finance expenditure programmes more generously.

EU citizens and politicians are opposing such skillfully disguised plans to increase the tax burden in certain EU Member States and these attitudes should not be ignored but must be respected while making political decisions.

Conclusions

Moving to qualified majority voting in taxation would not only fail to attain the desired goals but would also inflict a number of negative consequences:

- It would be incompatible with national sovereignty over tax matters which is a fundamental principle of the EU.
- By easing the pressure on national authorities to have an efficient and competitive tax policy, it would undermine the competitiveness of the entire EU economy.
- It might increase the already high tax burden for a large share of EU taxpayers.

Recommendations

- The European Commission should work to preserve the highest degree of tax competition between Member States that allows countries to create the best conditions for its citizens and businesses to work and enterprise. The initiative of moving to qualified majority voting in taxation poses the threat of fundamentally hindering this vital feature of the internal market and should therefore be reconsidered.
- High-tax EU Member States advocating tax harmonisation through moving to qualified majority voting should take practical steps towards improving their tax systems via aligning them with those tax regimes that are the most conducive to economic growth.

References

Commission communication on the initiative: https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6590013_en
Feedback received on the initiative: https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6590013/feedback_en?p_id=345056

[1] PwC, Bendros konsoliduotos pelno mokesčio bazės įtakos Lietuvai vertinimas, 2013.