

Speech by Commissioner Pierre Moscovici at the Commission's Tax Fairness Conference

Ladies and Gentlemen,

Let me first take a moment to sincerely thank DG TAXUD for their stellar job on this conference, which I am delighted and honoured to conclude. It is my great pleasure, privilege and honour to work daily with this Directorate. I am also pleased to see that taxation and fairness are subject matters that resonate with so many of you.

We need a fair Europe: that is beyond any doubt. A fair Europe is not a catchword; a fair Europe is what an overwhelming majority of citizens expects from us. That is why taxation matters so much.

Delivering on this front is not without its challenges or difficulties. I have heard that you have had some lively debates today, that is what this conference is made for: fairness may mean different things to different people across Europe. And there is certainly a very broad range of opinions on the role taxation should play to promote fairness.

The background against which we are discussing this issue is indeed very complex:

- We have been navigating in the past years from one crisis to another. We have been through a financial crisis followed by an economic crisis, itself followed by a migration crisis. We are also experiencing and we are conscious of that, a crisis of confidence in the institutions and their representatives, a rise of populism – even if there have been welcome defeats in the Netherlands or in France lately – and disenchantment with elites.
- However the political landscape is only one of the parameters we have to consider. The world is changing fast, and we, as policy makers, we have to adapt even faster. The digitalisation of the economy changes the way we work, the way we produce, or the way we consume. Taxation systems are challenged by these developments.

In this context, we need to reflect even more on which society we want and what role we want Europe to play. And I am convinced that taxation is instrumental in shaping a fair society and a strong economy. It always was but now more than ever.

Two fiscal options have been presented for too long as mutually exclusive: either promoting growth and investment or supporting social justice and a fair society. It is high time we overcome these false contradictions and that we build a positive taxation agenda.

Taxation is at the core of the functioning of our societies. It is not a technical matter; it is the highest and the most sensitive political matter:

- European citizens demand economic stability and social justice. These two objectives go hand in hand. We cannot achieve sustainable economic prosperity without also achieving social cohesion. Nor can we achieve social cohesion without having an economic environment that is supportive for creating jobs and growth.
- Taxation matters to our citizens and our companies. It deeply matters. Recent tax scandals which have led to a public outcry are an illustration of the concerns of public opinion. Honest taxpayers feel that they end up always paying higher taxes to make up for the tax cheats. Access to education, healthcare and infrastructure also rely on good tax policies and the compliance of all taxpayers with their own tax obligations.

Tax systems also need to elicit trust from taxpayers – trust is the most important word here. Trust that their money is put to good use and trust that everyone pays their fair share of tax. Meanwhile tax systems must be supportive of investment and empower citizens to take up a job or set up and run an innovative business. In other words, tax systems need to be designed to meet these dual goals of fairness on the one hand and economic growth on the other hand. And we must not see any contradiction between both goals.

Fairness in taxation should rest on two pillars at European level: first, ensuring a level playing-field, so that all taxpayers – citizens and businesses alike, and again I would not oppose one to the other – are on an equal footing and no one is unduly privileged; and second, beyond ensuring a level playing field, we need to promote active fiscal policies and tax policies at national and EU level that foster social justice.

At European level, we've made most progress in the areas of corporate and income taxation, to ensure a level-playing field and to promote fairness across Europe as well as beyond our borders. When multinational companies – and this Commission deals with a lot with multinational companies, without any fear, without any shyness – when these multinational companies avoid paying their fair share of taxes, it becomes hard for other firms to compete on the same terms. This is neither fair nor supportive of a competitive economy. It also means that honest taxpayers have to pay more than their fair share to ensure the financing of public services. Our rules are putting an end to this – that's the fight of this Commission.

Consider what has been accomplished so far to support fairness in taxation in that sense:

- We have built new defences against profit shifting, also in the framework of the G20 guidance and the OECD BEPS initiative, through binding new anti-abuse rules for the entire EU.
- We have broken new ground on tax transparency, by pushing Member States to commit to more openness, both on their own tax practices and those of multinationals. On 1 July, just two days from now, Member States will for the first time begin to share information about tax rulings with

each other, finally tearing down the wall of secrecy around the tax arrangements they grant to businesses and companies. As a Commissioner, I am in favour of anything that contributes to competition, but I will never oppose competition to transparency, I think that is a wrong idea and a wrong way of thinking. I am not fighting this or that profession, but I think that secrecy is no more what we must achieve in today's world.

- I presented a proposal in that sense, just two weeks ago to increase oversight over intermediaries that facilitate tax avoidance as a direct response to the Panama papers.
- With the relaunch of the CCCTB, Europe will have a decisive tool against corporate tax avoidance. For the first time, companies will have a single rulebook for calculating their taxable profit throughout the EU. Large multinationals will no longer be able to exploit mismatches between national tax systems, benefit from preferential tax regimes and play with transfer pricing rules to reduce their own tax liability. A single set of rules for all companies will ensure that they are taxed effectively. I truly believe in effective taxation. I do not think that we can reach a minimum rate – some might like it, but the rule of unanimity forbids it – but I think we also need to restore a level playing field between companies, and all taxpayers. That is what CCCTB is also about.
- Finally, we have extended our fair taxation agenda beyond the borders of the Union. We have stepped up our work to export higher levels of tax good governance worldwide. The OECD, the G20, I already mentioned are applying some pressure on those countries that do not play fair when it comes to tax. The EU list of tax havens which will hopefully be adopted by Member States by the end of this year – the Commission is putting some friendly pressure on that – needs to be ambitious and will aim to ensure that our international partners commit to the highest standard of tax good governance. This list will give us leverage against those countries that consistently refuse to play fair in tax matters, including through the use of sanctions. It will be a European premiere.

Reforming Value Added Taxation will also in my view promote fairness.

The VAT system, which was originally meant to be transitional, has been in place for over 20 years: it is a bit long for a transitional arrangement. It is thus a complex, burdensome and out-dated system for EU businesses that want to expand their activities across EU borders.

It is also, due to these complexities, more and more vulnerable to fraud. Several media recently reported on cases of fraud being allegedly committed by criminal and terrorist networks with ramifications across the whole EU. This cross-border VAT fraud represents no less than EUR 50 billion revenue loss for Member States per year! This is simply unacceptable at a time when Member States are asked to tighten their budgetary belt.

I will present an overhaul of our VAT system this autumn, with three objectives followed at the same time: simplifying VAT obligations for companies; providing greater flexibility to Member States in defining what products should be taxed at reduced rates. I think it is not up to us to

deliver a list of reduced rates, I think Member States should take their own responsibilities. I think it is a clever use of the subsidiarity principle. And last but not least, we want to fight the growing risk of tax fraud. This reform will therefore be crucial in our agenda for fair taxation. We do not talk that much VAT but I think that it is probably the most important reform that we would engage in the few years to come.

Our work for fairer and more effective taxation cannot be static. The economy is not static, taxation should not be static. We have to continually review our rules to ensure they are in line with practices on the ground. We need to react quickly and decisively to new challenges as they arise.

My true belief is that technology is our ally in the fight against fraud. It helps us share and match information, and get more granularity on the taxable presence and taxable activity of mobile taxpayers. We have to fully uncover its potential.

But digitalisation, in conjunction with globalisation, also brings challenges. Changes in society and business are emerging and will further test the sustainability of our tax systems. We need to ensure that this progress benefits to the society as a whole.

The taxation of the digital economy is an area which we could also start looking at with new lenses, with new eyes. A reflection at a broader EU level will always be fairer and more effective than a patchwork of national rules as they are currently being set up

Leveraging taxation to ensure a level-playing field is important to promote fairness; but fairness in taxation goes beyond fighting tax abuse.

Income and wealth inequality have reached an all-time high, and wealth inequality increasingly exceeds inequality of income. Taxation has a major role to play here. I want us – and when I say us, I am talking about Europe, the Commission and the Member States – to reflect more on how the overall design and structure of the tax systems can promote fairness.

We need to ensure that enough revenues are collected to fund public policies, while ensuring fair burden sharing between citizens. This means reflecting on the progressivity of our tax systems but also on the overall balance between all types of taxes. Taxation has also a role to play in supporting labour market participation, social mobility and intergenerational fairness, and it can finally help to mitigate income and wealth inequality. This means we need to widen the way we think about taxation, and consider how it can fund, incentivize, and correct.

Having a debate on social justice at EU level sometimes leads to lively reactions. Some may feel that Europe has no role to play here.

Let me be clear. Social justice is an EU imperative. Not only are excessive inequalities detrimental to economic growth and to macro-economic stability, but they also weigh on the trust that citizens have in their institutions and on social cohesion. They feed the legitimacy crisis the EU is going through.

They are also food for populism and that is why we must absolutely focus on social justice. It is our mission.

For those who are not yet convinced, let me go back to the Treaty – it is always a security for the Commissioner. The Union is founded on values of justice, solidarity and equality. The Union shall combat social exclusion, promote social justice, equality between women and men, and solidarity between generations. Last but not least, it shall – and “shall” is the word in the Treaty – promote economic and social cohesion. What I mention here is simply article 3 of our treaties.

The focus should therefore be on defining what action is appropriate at which level, through which instrument.

- Firstly, the European Union, through its own budget, and we discussed this morning in the Commission about the future of the multi-annual financial framework, the Union through its own budget already ensures some redistribution for example across regions. There was another forum here in Brussels about cohesion and I insisted on cohesion as a priority for the future, but also on convergence. Which is more than cohesion policy. This is closely linked to today’s debate on taxation and on the financing aspect of the EU’s budget.
- Secondly, as some of you may already be aware, a group of Member States have engaged in an enhanced cooperation to ensure that the financial sector makes a fair and substantial contribution to public finances, through the Financial Transaction Tax, the famous FTT. These 10 Member States, and it includes the four largest economies of the Eurozone, Germany, France, Italy and Spain, and the Commission believe that it is fair that the financial sector pays back part of what the European tax payers have pre-financed in the context of the bank rescue operations. I really feel and believe that we must reach agreement on FTT. It is not again about sanctioning a sector. It is just for fairness. It is also about financing development, about financing the fight against climate change, it is about showing reinforced cooperation can work at the Member States’ level when unanimity blocks important reforms. We must spend now some energy and finalise that. It is possible. It is near, but we must go through the last steps of the discussion on the FTT.
- Thirdly, the European Union is also acting to promote fair and efficient tax reforms at national level, through the European Semester. This mechanism supports greater convergence between the Member States. For that purpose, Member States need to properly take into account social priorities when they engage in structural reforms. Structural reforms are not about punishing, they are about reforming, about progressing. Tax and benefit systems combined – through the progressivity of tax systems, good tax collection and the provision of adequate social benefits – can help to promote employment and reduce income inequalities and poverty. In this context, a number of recommendations to Member States were proposed this spring to improve the adequacy and coverage of safety nets. Ultimately it is for Member States to implement reforms. We are not acting as a super government – it is not our role. But our recommendations, I think, would be better if applied for the Member

States.

Ladies and Gentlemen,

Allow me to conclude. Now is the time to look ahead, at the future of taxation, for a competitive and fairer Europe and again these are two sides of the same coin in my view. We have the opportunity to make a difference, by making the right choices, now. But it all depends on the level of ambition that Member States will be ready to commonly agree on. This means defining what kind of Europe we want to build and what means we will give to it. I am certain that we need a positive vision for the future of taxation in the EU, built on our strengths and also on our common values. I believe that we need more, not less, Europe in taxation. I thank you for your attention and I look forward to our discussions.