PROPOSAL FOR A RESOLUTION [3] ON A CORPORATE DIGITAL TAX

Submitted by Groupe Europe

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Recalls the Monti report on EU own resources of January 2017 and UEF's position of April 2019 that the European budget must be financed by genuine own resources linked to European added value and EU policies and that large companies must pay their due for taking advantage of the European Single market. There must be an end to making EU taxpayers bear the burden (via the 4th GNI based EU revenue now accounting for 70% of EU resources) whereas giant internet companies, intangible, digital service providers and large multinationals evade taxation and gain undue advantage without contributing;

Recalls as well that the Own Resource Decision of December 2020 has been ratified end May 2021 in time for the launch of the EU Recovery Plan (750 billion EUR). This is necessary in order to finance the new priorities agreed in December 2020 such as the European Green Deal and Digital Europe under the EU Recovery plan (*NextGenerationEU)*, and to frontload the necessary investments, while the EU economy has slumped by an average 7% in 2020.

Notes that

- the dismantling of own resources since the 1990s has left the EU budget with net balances which ignore the added value of EU policies and make the financing of European common goods almost impossible. The reform of EU revenues has been long overdue and British exit has proved to be a lost opportunity to end the various rebates on national GNI contributions;
- the reform of own resources would allow the EU to depend less on contributions from Member States and recover the original design of the Customs Union ("true" own resources based on revenue generated at the common external border are EU entitlements, though collected by the Member States), as opposed to contributions from the Member States. There must be an end to debates on the so-called "*juste retour*" and prevent the yearly arm twisting and 7-yearly blackmail by Member States when defining EU budgets;
- A hard-won roadmap was agreed on 16.12.2020 among the three institutions towards new own resources in order to cover the repayment of the European Union Recovery Instrument by 2058 without impacting national budgets;
- A contribution based on non recycled plastic packaging waste has become a new revenue source of the EU budget as of 1 January 2021.

Welcomes the planned proposals for a revised EU Emissions Trading System, which could generate revenues for the EU budget of about EUR 10 billion, depending on the evolution of the carbon price and the extension of the system to sectors such as aviation and maritime traffic, and a carbon border adjusment mechanism (CBAM which could bring an additional 5 to 14 billion a year)[1]. CBAM aims to reduce the risk of carbon leakage and ensure an environmental level playing field between EU and third country operators by aligning the price of imports with their carbon content;

- Other proposals for a digital levy are also due mid 2021, replacing the 2018 proposals that targeted companies with annual revenues above 750 M€ worldwide revenue and 50 M€ in the Union and that expected returns around €7 billion per year based on user location. There must be fair burden sharing between digital companies that are active in the Single Market and the other companies (whose current average taxation is 20%, ie double that of digital companies). An interim digital services tax (annual revenue estimated at around €5 billion) is to counter the loss of tax revenue, while negotiations continue on the EU corporate tax;.
- Additional own resources will be on the table by mid-2024, with new proposals for a financial transaction tax (to break the deadlock since the enhanced cooperation scheme between 11 Members states in 2012) and a financial contribution linked to the corporate tax base (Common Consolidated Corporate Tax Base or CCCTB with expected return of €12 billion). The 2016 CCCTB proposal set up a single EU system to calculate cross border companies' *taxable* profits in the EU, to consolidate their losses and profits across the EU and be taxed where they are active at the national rate. The revamped corporate tax will take into account international discussions towards reforming the outdated international corporate tax system, with action on the reallocation of taxing rights and minimum effective taxation. These are conducted under the OECD/G20 Inclusive Framework on base erosion and profit shifting.

<u>Observes that</u>,

- A succession of scandals (*Luxleaks* in 2015, *Panama Papers* in 2016, *Paradise Papers* in 2017) raised public outcry and led to a renewed action for fair and efficient taxation in the EU, including an end to tax rulings whereby some Member States attract companies to localize their profits with them and deprive other Member States from revenue[2];
- Unanimity rules for harmonising and approximating national taxation legislations means the Commission and Parliament have little say. In 2020 and 2021, the use of antitrust charges against Big Tech met with two recent setbacks before the EU General Court. In 2017, the Commission had attacked Ireland's failure to recover from Apple illegal state aid worth up to 13 billion euro in unpaid taxes for the past 10 years, and invited Amazon to pay back some €250 million unpaid taxes in Luxembourg. Though both cases are now appealed by the Commission before the Court of Justice, the tool as yet provides a shaky basis for correcting tax discrepancies and unfair competition across the EU.
- Deadlocks in the European negotiations on taxation which require unanimous approval of the Member States have continued for more than ten years now. Meanwhile the Member states take measures in a disorderly way, thereby exacerbating tax competition inside the Single Market and feeding public outrage: corporate tax in the EU is 21.7% on average, and has declined steadily (below the worldwide average which was 23.9% in 2020) but varies from 31.5% in Portugal to 12.5% in Ireland, 15% in Lithuania and 9% in Hungary). The inaction of the Member

[1] Communication from the Commission "The EU budget powering the recovery plan for Europe", COM(2020) 442 final of 27 May 2020,

[2] Some EUR 35-70 billion are lost each year in corporate tax avoidance in the EU. See COM(2021) 251 final of 18 May 2021, footnote 12.

States simply means the EU is losing out in the global tax competition. Unanimity in tax matters in the EU is clearly outdated; -

Welcomes

- The US reform of corporate tax since 1 January 2018 which shows the way to restoring the tax base abusively eroded by delocating profits and IP rights to tax havens. President Joe Biden's tax plan of 31 March is to raise the US corporate tax rate from 21% to 28% to fund major infrastructure investments ($ 2000), repeal the reduced rates on foreign derived intangible profits, refuse US tax deductions to US resident corporations which shift profit to low-taxed jurisdictions and raise the global minimum effective corporate tax rate (to be agreed at OECD level, or set at 21% in case it is not). This means that an American company residing in Ireland (12% tax on corporate benefits) would have to pay an extra 9% to the American treasury.
- President Biden's initiative as a sign that good governance in these matters takes on a global dimension, whereas national jurisdictions have no power to curb and national vetoes are paralysing instruments. Tax justice and the environmental cause are common goods and international cooperation is an extremely positive outlook: it is time to reverse a 40-year trend towards the exhaustion of public finances and the tax race to the bottom among the states.
- the European Commission's Communication on Business Taxation for the 21st century of 18 May 2021 takes account of the progress made in the G20/OECD discussions on global tax reform. A new framework for business taxation in the EU will be presented by 2023, and will replace the pending 2018 proposal for a Common Consolidated Corporate Tax Base. The new global dynamics in corporate taxation will influence the shape of the EU business tax agenda but the direction of reform will clearly target big companies (close to €1 billion of consolidated group revenue (or a share of this in the 27 Member States) and propose taxing at EU level.

UEF urges the European Commission and the Member States to:

1. Support the proposal discussed in the European Council of taxing web companies as a function of their "virtual permanent establishment", whereby digital firms should pay taxes in countries where they have a "significant digital presence";
2. Promote, in line with the principle of subsidiarity, EU action on business taxation with a clear cross-border dimension, targeting barriers to the smooth operation of the Single Market and to cross-border investment created by differences between national tax systems;
3. Support the Commission proposal of 18 May 2021 for a new EU framework for business taxation, based on a common tax base and a reallocation of profits between Member States; including a single EU tax return for multinational groups on the basis of their consolidated profits;
4. Propose that all corporations earning close to €500 million/1 billion in revenue from the EU single market pay a modest levy (somewhere near 20%) of this overall revenue directly to the European Union budget. This would replace national taxes and be much simpler, both for the taxing authority and for companies. Overriding concerns for tax justice should prevail, over and against unanimity rules in the Council, to counter Euroscepticism, back European goals and align with global negotiations on a minimum effective taxation and reallocation of taxing rights among jurisdictions;

5. Engage with the new dynamics in global talks on corporate taxation and recognise the need for the EU to address tax competition at a comprehensive EU and global levels, not nationally. Solutions to reform the international corporate tax framework currently discussed by the OECD do address the public revenue gap stemming from the globalisation and digitalisation of the economy; the EU should use these as a stepping stone;
6. Support the alternative path to the ineffective process of harmonising national corporate taxes by means of directives approved unanimously and the mechanism whereby Member states remain competent in direct tax matters;
7. Arrange mechanisms for true European taxes to be levied automatically as EU own resources, when they are generated by new common EU policies without modifying of the Own Resources Decision; the legal act establishing these new policies should include such provisions;
8. As discussed among OECD countries and the G20, jurisdictions can top up the amount paid to a minimum effective level. The EU should be enabled to do the same and collect this revenue supplementary to national levies, when they are below the agreed minimum tax rate. This means, for example, that a true EU corporate tax and the new digital tax should be levied by the EU from the companies in question and determined by the Council on qualified majority and the European Parliament on the basis of Article 116 TFEU.