



Tax integration in the EU – challenges, results, and prospects

dr Maciej Grabowski,

The Gdańsk Institute for Market Economics

INEKO conference : "Economic Reforms for Europe"

Bratislava, 18 March 2004

www.ibngr.edu.pl

**Maciej
Grabowski**



General considerations of tax integration
in the EU



Tax integration process and current
situation



Main results



Prospects



Tax integration in the EU

General considerations of tax integration



Any tax brings deadweight loss



Institutional order reflects cultural and historical preferences and limitations



Tax rules should not hamper the free movement of goods, services, capital, and labour within the EU and right of establishment



Competition among institutional settings may bring positive and negative externalities



Globalization and global tax competition



Tax integration in the EU

Therefore these considerations leads to:



Crucial point is if and when competition may bring positive externalities and they overcome the negative ones.

Greater tax mobility leads to tax competition, and thus to lower tax burden on consumers and companies – it is hard to argue that taxes are not high in the EU, and limit economic growth

This may lead to provide public goods in more effective manner – government has less resources to spend and/or to reduce public intervention

Negative effects may be caused by tax benefits granted to non-residents



Tax integration in the EU

Tax integration process

Huge progress in EU tax integration in last 10 years

In form of the EU legal acts:

- regulations and directives on customs, VAT, excises, IAS, merger, savings,
- convention on transfer pricing disputes

In form of the EU soft regulations:

- EU Council Code of Conduct (1997)

In form of the European Court of Justice decisions, based mostly on Treaty's rules of freedom of movements and establishments, and non-discrimination



Tax integration in the EU

Tax integration results



Indirect taxes, their rules and rates are harmonized to such extent that internal market competition is secure.



Harmonisation of some rules of direct taxes is either completed or planned (like home state tax, Common Consolidated Base Taxation). EC states that it doesn't consider to harmonize full EU company tax.



Growing role of the European Court of Justice in tax integration means that internal market rules are not fully in place in member states, and as it leads to *FT* says „*Intolerable consequences of courts setting Europe's taxes*”.



Tax integration in the EU

Tax integration prospects



Rule of unanimity for tax issues is preserved in the EU Convention – one may not expect major tax harmonization through legal regulations. Differences in providing public goods and public spending will be even wider after enlargement than now. Policy objectives, administrative capabilities and economic conditions are different too.



Integration through competition may lead to soft regulations, f.i. through open method of coordination and also depends on progress in other fields like financial markets and services integration.



Gradualist approach to further tax integration will be observed and competition among institutional settings will be preserved. Also due to globalization.