

# Tax Competition - is Europe going flat?

## (EEI event report\*)

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On March 14<sup>th</sup> just after the EcoFin meeting in Brussels the European Enterprise Institute gathered an important policy-crowd to discuss the tax competition in the EU and the future of the wider flat tax movement.

Speakers were all distinguished parties to this debate. After a brief introduction by the new EEI Executive Director Mr. **Jerzy Samborski**, EEI President Mr. **Peter Jungen** introduced the debate by providing an insightful overview of the history of progressive tax system in Europe. Jungen said that it is somewhat of an historical paradox that countries once under the rule of a Marxist ideology now in the 21<sup>st</sup> century are leading the way toward a more simplified tax system. He also open-up for reflection on whether the success of the flat tax system would eventually open up for a further tax revolution the so called “fair tax”, a consumption tax, which would mean a return to the pre-1891 German situation, when the progressive tax scale first was introduced.

After these introductory remarks Mr. **Ivan Miklos**, Deputy Prime Minister and Minister of Finance of the Slovak Republic gave an interesting introduction of how he foresees that the debate on tax competition versus tax harmonisation would shape-up in the future. Miklos argued that after having reformed his own country he would not support a return to a system that would threaten Slovak or European competitiveness. Miklos also said that the main problem in Europe today is not the taxation issue but a lack of progress in the internal market. Europe needs progress on expanding the logic of the internal market also to services which accounts for almost 70% of the value of the market. Regarding the issue of what role the European Commission should play in co-ordinating EU's taxation policy Miklos said that there is a strong case for co-ordination of indirect taxes but as concerns direct taxes this should still be left to the Member States. On the matter of harmonisation of corporate tax bases in the EU, Miklos underlined the complexity of such approach. If the EU would adopt a Slovak style tax base this would no longer be an issue the Finance Minister argued but as long as the EU has so many different systems it is unrealistic to foresee future harmonization.

Following this presentation Mr. **Robert Verrue**, Director General of the General Directorate for Taxation and Customs Union presented the European Commissions view on tax competition. Verrue said in his introductory remarks that given the unanimity requirement on taxation matters the European Commissions ability to act decisively is restricted. The General Director also mentioned a couple of initiatives that the European Commission wanted to present to the Council in anticipation of the June EcoFin meeting. He especially underlined the principle of *Home State Taxation* which would allow Small and Medium sized Enterprises (SME's) engaged in foreign expansion to use its home state taxation system. This would substantially reduce barriers for SME's Verrue argued. The EC also wants to address the issues of the lack of a harmonised

corporate income tax bases in order to reduce compliance and introduce equal and transparent corporate income tax bases.

The flowing **Q&A** session touched upon a variety of issues and remarks from the audience. When discussing the experience form the Slovak tax reforms the Slovak Minister of Finance warned against using the flat tax as simplified political argument. It should be based a sound assessment of the feasibility of such system. On a question raised, Miklos contradicted a statement posted by the Polish Finance Ministry which stated that the reforms of Slovakia took 7 years to secure. Miklos argued on the contrary that if the political will is there the Slovak experience have shown that reforms needs not to take a lot of time. On a question put to the minister on weather he would block any efforts to harmonise any direct taxes by introducing a so called enhanced cooperation procedure amongst other EU Members States, Miklos said that he would do what is necessary to secure the Slovak and European competitiveness.

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Report compiled by the EEI

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