



OPEN EUROPEAN DIALOGUE

Highlights

OED120 Policy Deep-Dive: The Future of Taxation in Europe The Battle Between Fair and Competitive Policies

13 December 2021

The OED is committed to strengthening dialogue between policymakers across Europe by providing a neutral, informal, and accessible space for conversation. The OED120 Policy Deep-Dive format allows parliamentarians to receive a concise briefing, ask questions to an expert, and discuss a narrowly defined topic with colleagues. The OED provides expert facilitation to extract the most value out of the discussion. In the 120-minute video call, policymakers get the chance to share their perspectives with their colleagues, while having topic expertise on hand for questions and clarifications. Topics are either chosen as they emerge in other network activities, suggested by members of the network themselves, or flagged by the network of OED researchers and experts. MP network members can initiate these calls and volunteer their expertise on a topic of their choosing.

Our call was joined by representatives from 9 parliaments, namely Austria, Estonia, Germany, Greece, Ireland, and Poland. Experts Alessandro Barattieri and Maricla Pennessi joined the call to discuss the future of corporate tax in Europe in the context of the recently proposed [Two-Pillar Global Tax Reform](#) by the OECD, and the various factors that impact the competitiveness and relative fairness of European tax regimes.

HIGHLIGHTS FROM THE CONVERSATION

- **In October, 136 members of the OECD/G20 Inclusive Framework agreed on the statement of the Two-Pillar Solution to address the tax challenges arising from the digitalization of the economy.** Endorsed also by the EU there is a drive from multiple actors to implement it by 2023.
 - Pillar One re-allocated taxing rights on Multinational Enterprises (MNEs) more fairly. Importantly for the discussion, Pillar Two creates a global minimum tax of 15% for MNEs.
 - “For countries like Italy, Germany, and France this tax rate will be good because they will receive more money and this will help politically... for countries like Estonia, Hungary, and Ireland, maybe not so much and they will have to consider what to do. And yet, they still have agreed to it.”

- “The OECD is just giving a framework. It will be up to states to work out the details. The main goal was to have this agreement crafted, [which was already] unprecedented. The content comes second.”
- **Estonia, Hungary, and Ireland originally rejected the agreement. What does their acceptance to join the OECD’s global corporate tax reform entail for them?** Estonia, for example, has an interest in protecting the international competitiveness of its business environment. It will now enter detailed discussion with the European Commission and other EU member states to work out the EU directive to implement the OECD agreement.
 - “From this dialogue, I take that there is not much support for the Estonian 0% profit tax across Europe, this will be our challenge [going forward].”
 - “How it works since 2000, is that the profit tax in Estonia has been 0% only if the company’s profit has not been distributed to stakeholders... this encourages business to apply their profits to internal development, and for example, repay loans. Taxes are not charged and there are no fiscal payments until the profit is directed to dividend payments. In the end, profits are taxed as they turn into dividends, so Estonia is not a tax haven.”
- **Rapidly expanding digital services have become particularly difficult to tax.** According to participants, central to the debate on the two pillars is how they cover all digital tax.
 - “[The Pillars] are the answer to not only just Big Tech like Google and Facebook, but also to taxing all digital companies. This is just the beginning. If you do not set a minimum tax, you are in the jungle. This is a way to set a standard that responds to certain basic needs of certainty.”
- **Many corporations are now onboard with the tax reform proposal. Does this signify a shift in corporate culture and corporate social responsibility?**
 - “It seems that companies want to join the conversation and debate about tax reforms... the debate is moving toward some initial changes that could define some shared standards [across the EU].”
 - “These reforms are clearly not enough and digital companies know it. They have already thought of ways to get around these changes and they are smart enough to portray themselves as ‘agents of change’, when in fact, nothing will change.”
 - “Will the private sector provide what the public sector should?”
 - “Before we had what we call welfare, it was private corporations offering services: why should we go back to something we scrapped a long time ago? We know how this played out in the United States, and the government still pays a lot more money on welfare [than we do], for example.”
 - “Is there really a change in the corporate world or is this just a veil?”
- **Finally, tax competition between Member States is tied to how taxation competencies are distributed between states and the European Union.** Participants discussed how some taxes that are better collected at the national level, and some others at the EU level. Through the EU Energy Taxation Directive, for example, the cost of fuel is exempt across all Member States in international flights to ensure equitable operations on the aviation industry across countries.
 - “[For example], commercial aviation is exempt from excise duties in the EU,

in contrast to road and rail transport.”

- “Because we have set standards, the issue of distorting the competitive markers does not arise with regard to taxing fuel on domestic flights.”
- “Kerosene for planes is better taxed at the EU level, Member States can keep the trains and buses.”

RESOURCES

- [Expert Presentation](#), OED120 Policy Deep-Dive – The Future of Taxation in Europe, the Long-Lasting Battle Between Fair and Competitive Policies

A PowerPoint presentation providing a contextualization of the topic.

- [Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy](#), *OECD, October 2021*

The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting has agreed a two-pillar solution to address the tax challenges arising from the digitalization of the economy. This paper shares the components of each Pillar.

- [A Wealth Taxation on Corporations' Stock](#), *G20 Insights, October 2021*

Two professors from the University of California, Berkeley, Emmanuel Saez and Gabriel Zucman, propose a new annual tax of 0.2% on corporations' stock share for all publicly listed companies headquartered in G20 countries, raising approximately US\$180 billion each year.

- [New Forms of Tax Competition in the European Union: An Empirical Investigation](#), *EUTAX Observatory, November 2021*

This report provides an empirical analysis of personal and corporate tax competition in the European Union. They find that tax competition increasingly takes the form of preferential or narrowly-targeted tax regimes on top of general rate cuts.

KEEP THE CONVERSATION GOING

The Open European Dialogue is a network driven by MPs. We look forward to hearing from you and helping you as best we can to connect and work with your colleagues from across Europe in these challenging times.

Keep in contact with your colleagues! Please know that you can always find the contact details of all OED members on the [members-only area of the website](#). Should you

have issues logging in, you can contact JCoenen@gmfus.org.

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