

Leaders' Agenda

March 2018

DRAFT

Taxation

The emergence of the digital economy has become a growing challenge to our taxation systems, which were designed at a time when most businesses had a physical presence. It is notably this physical presence that gives governments the right to exercise their tax powers. The rise of new technologies, however, has led to a very different market reality where digital businesses act without such a presence. This mismatch, and the fact that digital businesses derive their value mostly from intangible assets, lead to shortcomings in our taxation systems when it comes to taxing digital activities.

Moreover, our taxation systems have come under strain as a result of corporate tax avoidance and evasion. Even though significant progress has been made over the last years to fight these phenomena, a number of questionable practices continue to cause concern.

All these developments lead to an erosion of the tax base, effectively reducing government tax revenues. This, in turn, has an impact on national budgets and ultimately on the financing of public services. In short, it affects ordinary citizens' quality of life.

We therefore need to assess and rethink the current rules, and adjust them accordingly. As stated by the European Council in October 2017, the EU needs "an effective and fair taxation system fit for the digital era". It is clear that international action on adjusting digital taxation rules will take time. This begs the question whether or not more immediate, temporary measures at the EU level should be taken. The European Commission will present legislative proposals on digital taxation on 21 March. In parallel, our fight against all forms of tax avoidance and evasion must continue.

Taxation is an important but technically and legally complex area of cooperation amongst EU Member States. In addition, taxation matters are decided at the EU level by unanimity. Member States have established very different taxation systems, and pursue different tax strategies. At the same time, taxation has an impact not only on national revenues, but also on the functioning of our Single Market and the competitiveness of the EU on the global scene. It is therefore important to tackle tax issues at both the EU and the global (OECD/G20) level. Money and revenue flows ultimately need to be seen globally, not only in the European context.

Against this background, Leaders are invited to have an open debate on the following issues:

- 1. How should we adapt our taxation systems to encompass the new digital models in the short and medium term?**
- 2. What more should be done to fight tax avoidance and evasion?**
- 3. How can we best ensure a synergy of efforts at the EU and international level?**

There will be no written output from this debate. The European Council will return the issue at its meeting in June [tbc].