Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 5 October 2017

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 10 October in Luxembourg

*The Council is expected to approve a new system for **resolving double taxation disputes**.*

*It is due to adopt conclusions on the financing aspects of **climate change**, ahead of a UN conference in November 2017.*

*The Commission will present its proposed **VAT reform**, aimed at simplifying the VAT system and making it more fraud-proof and business-friendly. It will also set out its proposed strategy for **digital taxation**, aimed at closing off loopholes that leave digital companies largely untaxed.*

*Also on the agenda is the preparation of the autumn **G20 and IMF** meetings, as well as lessons learned from the 2017 **European Semester** policy monitoring process.*

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*The **Eurogroup** will meet on Monday 9 October, starting at 15.00. It will discuss the future role of the European Stability Mechanism, exchange rate developments (with a view to the autumn World Bank and IMF meetings) and how best to finance cuts in labour taxation. It will also discuss post-programme surveillance following the completion of a financial assistance programme in Portugal.*

*On 10 October, ministers will hold a breakfast meeting at 9.00 to discuss the **economic situation**. They will also discuss the Commission's discretion in assessing compliance with the preventive arm of the **Stability and Growth Pact**, the EU's fiscal rulebook.*

The Council is scheduled to start at 10.00.

Press conferences:

- after the Eurogroup meeting *(Monday evening)*;
- at the end of the Council *(Tuesday lunchtime).*

Eurogroup agenda highlights

Press conferences and public events by video streaming

Video coverage in broadcast quality (MPEG4) and photo gallery

1 This note has been drawn up under the responsibility of the press office.

Double taxation - Dispute resolution

The Council is due to approve, without discussion, a new system for resolving double taxation disputes within the EU.

The directive sets out to strengthen the mechanisms used to resolve disputes between member states that arise from the interpretation of agreements on the elimination of double taxation.

The aim is to encourage a favourable tax environment where compliance costs for businesses are reduced to a minimum.

Agreement on the directive was reached at the Council's meeting on 23 May 2017. The European Parliament has given its opinion. The Council requires unanimity to adopt it. (Legal basis: article 115 of the Treaty on the Functioning of the European Union.)

- 2017 directive on double taxation dispute resolution mechanisms
- May 2017 press release on double taxation dispute resolution mechanisms

European Semester 2017 - Lessons learned

The Council will assess challenges for the 'European Semester' policy monitoring process in the light of lessons learned from the 2017 exercise.

The chairman of the Economic and Financial Committee (EFC) will report on discussions in the EFC and the Economic Policy Committee.

Ministers will be called on to discuss:

- how to improve implementation of country-specific recommendations;
- introducing a more European perspective by discussing spill-over effects;
- legal and institutional obstacles that hamper the functioning of the EU single market;
- the interdependence between the annual recommendation for the euro area and the annual country-specific recommendations.

The European Semester involves simultaneous monitoring of the member states' economic, fiscal and employment policies during a roughly six-month period every year.

Covering a broad range of policy areas, it involves several Council configurations and preparatory committees.

In the light of policy guidance from the European Council annually in March, the member states present each year:

- national reform programmes for their economic and employment policies;
- stability/convergence programmes for their fiscal policies.

The European Semester concludes in July with the adoption of country-specific recommendations.

The 2018 European Semester will start in November 2017 with the Commission's publication of its annual growth survey.

G20 and IMF meetings in Washington DC

The Council will discuss preparations for international finance meetings to be held in Washington DC between 12 and 15 October 2017, namely:

- a G20 finance ministers and central bank governors meeting;
- IMF annual meetings.

The G20 meeting will feature a discussion on the state of the global economy, a G20 compact with Africa, international financial institutions, financial regulation, taxation issues and the outlook for the forthcoming Argentinian G20 presidency. It will be the last G20 ministerial meeting of the German G20 presidency, with Argentina taking over on 1 December 2017.

Climate change

The Council will be called on to adopt conclusions on the financing aspects of climate change ahead of a UN climate change conference.

The 23rd conference of the parties (COP23) to the UN framework convention on climate change will be held in Bonn from 6 to 17 November 2017. The conclusions will constitute a mandate for the EU's negotiators as concerns the financing aspects.

The Bonn conference will follow up on a global agreement reached at COP21 in Paris in December 2015.

The Paris agreement is a global instrument that contains both legally binding and voluntary elements. It was signed in New York in April 2016 by 195 countries, including the EU and its 28 member states, and more countries have signed since then.

The agreement seeks to keep the increase in the global average temperature to well less than 2°C above pre-industrial levels, and to pursue efforts to limit it to 1.5°C. Countries submit national action plans to reduce greenhouse gas emissions ('mitigation'), which will gradually increase in ambition over time. Under the plans, 'nationally determined contributions' are communicated every five years and the parties must report on implementation.

The agreement also sets out to help developing countries and the most vulnerable countries deal with the impact of climate change ('adaptation') and recover from such impacts (loss and damage).

As concerns the financing aspects, the Paris agreement commits industrialised countries to continue providing finance to assist developing countries. Other countries are also encouraged to provide (or to continue to provide) support.

The goal set for industrialised country contributions is $100 billion per year by 2020. By 2025, the parties will set a new collective quantified goal.

The EU and its member states have committed to scale up their contribution towards the $100 billion goal. Their total contributions amounted to €14.5 billion in 2014 and €17.6 billion in 2015. A figure quantifying their 2016 contributions will be announced before COP23.

The draft conclusions focus on making better use of available resources, in particular private finance. The text highlights that the EU and its member states are the largest provider of public climate finance and calls for the participation of a broader range of contributors. It urges other developed countries to meet their commitments and to mobilise private finance towards the collective goal.

Other business

The Council will discuss the following under 'other business':

- **Financial services**: the Council will be updated regarding work on legislative proposals and the Commission will report on the implementation of legislation;
  - October 2017 progress report on financial services legislative proposals (12616/17)
- **VAT reform**: the Commission will present proposals for a reform of the EU's VAT system.
  - October 2017 proposal for a directive introducing a definitive VAT system (12882/17)
  - October 2017 proposal for a regulation on VAT as regards certain exemptions (12881/17)
  - October 2017 proposal for a regulation on VAT as regards certified taxable persons (12880/17)
  - October 2017 Commission communication on the follow-up to its VAT action plan
- **Taxation of the digital economy**: the Commission will present a communication on taxation of the 'digital economy' and the presidency will report on the outcome of an EU summit on digital issues held in Tallinn on 29 September 2017.
  - September 2017 Commission communication on taxation of the digital economy
  - 2017 Tallinn digital summit

Without discussion, the Council is expected to adopt a directive on the resolution of **double taxation disputes** (see separate item above).

VAT reform

The proposals would create a definitive VAT system to replace the current set-up which, dating from 1993, was conceived as a transitional VAT system.

The aim is to better support the EU's single market, prevent fraud, facilitate cross-border trade and keep pace with today's digital and more mobile economy. In its current form, the VAT system remains fragmented and creates significant administrative burdens, especially for SMEs and online companies.

For the first time, sales of goods would be taxed in the same manner as goods that are sold within individual member states.

Fraud would be reduced by 80% under the new system, the Commission estimates. Member states lose €150 billion of potential VAT revenues every year overall (the so-called VAT gap between expected VAT revenue and VAT collected). Of this, around €50 billion is attributable to cross-border VAT fraud and is used in part to finance crime.

The reform would also make the VAT system more robust and simpler to use. Businesses trading across frontiers currently face compliance costs that are 11% higher than those for companies trading domestically.

Taxation of the digital economy

Current tax rules were designed for the traditional economy and do not apply to activities that, increasingly based on intangible assets and data, require no physical presence in the country. As a result, the effective tax rate of 'digital' companies in the EU is estimated to be half that of 'traditional' companies and is often much lower. Member states are taking unilateral measures to address the problem, and these threaten to overtax companies and create further market distortions in the EU's single market.

The Commission's communication examines the issue in the light of a discussion held by ministers on 16 September 2017 at an informal meeting in Tallinn. It sets out the challenges and outlines possible solutions, and supports a fundamental reform of international tax rules. The OECD is expected to issue a report to the G20 on the taxation of the digital economy in spring 2018.

The Commission also envisages a legislative proposal for spring 2018, ideally to implement solutions suggested by the OECD. In the absence of progress at international level, it suggests that the EU should move forward with the necessary solutions at EU level.
The presidency intends to prepare conclusions for the Council's meeting on 5 December 2017. These will act as the EU's contribution to discussions at the international level and form a reference for further work at EU level.