Council of the European Union

PRESS

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BACKGROUND BRIEF[1]
Luxembourg, 15 June 2023

Economic and Financial Affairs Council
Luxembourg, 16 June 2023

Chair: **Elisabeth Svantesson**, Minister for Finance of Sweden

European Commission representatives: Commission Vice-President Valdis Dombrovskis, Commissioner Paolo Gentiloni, Commissioner Mairead McGuinness

Starting time: 10.30

Press conferences:

• after the Eurogroup meeting (Thursday evening, +/- 20:00)

• after the Economic and Financial Affairs Council (Friday +- 14:30)

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The Council will give political guidance for further work on the **'VAT in the digital age'** package which the Commission had presented in December 2022.

The Presidency will present the state of play as regards current legislative proposals in the field of **financial services**.

The Council will then have the opportunity to exchange views on the proposed **reform of the economic governance framework**. Following a presentation by the Commission ministers will have the opportunity to comment on the main political priorities for the negotiations ahead.

Concerning the **Recovery and Resilience Facility** (RRF), the Council will aim to adopt an implementing decision approving an amended recovery and resilience plan of **Estonia**.

Taking work forward on the **European Semester**, the Council will aim to approve its **recommendations** on the 2023 national reform programmes and it will aim to deliver its **opinions** on the updated stability or convergence programmes. Ministers will approve the Council recommendations with a view to forwarding them for endorsement to the European Council.

The Council will take stock of the economic and financial impact of **Russia's war against Ukraine**, focusing in particular on the **EU's macro-financial assistance for Ukraine**.

As regards **international meetings**, ministers will give guidance for further work as regards the preparation of the **G20** meeting of finance ministers and central bank governors meeting of 14-18 July 2023.

Concerning **taxation**, the Council is expected to approve conclusions on the progress achieved by the **Code of Conduct Group** during the Swedish Presidency (January to June 2023).It is also expected to approve the biannual Ecofin **report to the European Council on tax issues**. This report provides an overview of the progress achieved in the Council during the term of the Swedish Presidency, as well as an overview of the state of play of the most important dossiers under negotiation in the area of taxation.

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

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The Eurogroup will meet on Thursday 15 June (16.30).

In regular format, it will discuss:

- *Update on the digital euro project – review of the overall high-level design, including a possible compensation model*
- *Eurogroup work programme for II/2023*
- *Post Programme Surveillance : Greece, Cyprus, Ireland, Portugal, Spain*
- *Article IV review of euro area policies*

In inclusive format, it will discuss:

- *Performance of European capital markets*
- *Miscellaneous*

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Economic and Financial Affairs Council - meeting page

Eurogroup - meeting page

Economic and Financial Affairs Council - video coverage in broadcast quality (MPEG4) and photo gallery

Eurogroup - video coverage in broadcast quality (MPEG4) and photo gallery

Press conferences and public events by video streaming

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Taxation: VAT in the digital age

Ministers will be invited to hold a policy debate on this legislative package and to **give political guidance** on a number of key issues which are currently the subject of discussions at the level of experts of the member states.

Ministers will be invited to express their views on the following questions:

- With regard to the shift to new technologies such as **electronic invoicing and digital reporting**, including in the fight against VAT fraud, do ministers agree that there is a need to address the fragmentation of the internal market and provide for a consistent framework of reporting based on e-invoicing for intra-EU and domestic transactions?
- Do ministers agree that **platforms** should have an enhanced role in the collection of VAT in the short-term accommodation and passenger transport sectors to provide for more simplicity, better compliance and a level playing field?
- Do ministers agree that the **one-stop shop concept** and the reverse charge mechanism should be enhanced to overcome the need for multiple VAT registrations for businesses that operate in the internal market?

Background

On 8 December 2022, the Commission had presented the 'VAT in the digital age' package which consists of **three proposals**:

- a proposal for a Council directive amending directive 2006/112/EC as regards VAT rules for the digital age;
- a proposal for a Council regulation amending regulation (EU) No 904/2010 as regards the VAT administrative cooperation arrangements needed for the digital age; and
- a proposal for a Council implementing regulation amending implementing regulation (EU) No 282/2011 as regards information requirements for certain VAT schemes.

The three proposals have the following **objectives**:

- they set out to modernise the reporting obligations for VAT purposes by standardising the information that needs to be submitted by taxable persons on each transaction and by imposing the use of e-invoicing for cross-border transactions, which would contribute to the fight against VAT fraud;
- they seek to address the challenges of the platform economy by enhancing the role of platforms in the collection of VAT when they facilitate the supply of short-term accommodation rental or passenger transport services; and
- they support the aim of reducing the need to register for VAT purposes in multiple EU Member States, by improving the functioning of and expanding the existing one-stop shop systems and reverse charge mechanisms.

Presidency note

Digital taxation (background information)

Financial services

The Presidency will present the state of play of **current legislative proposals** in the field of financial services.

Progress report

Digital finance (background information)

Capital markets union (background information)

Economic governance review

The Council will have the opportunity to **exchange views** on the proposed reform of the economic governance framework. Following a presentation by the Commission ministers will have the opportunity to comment on the **main political priorities** for the negotiations ahead.

On 14 March, the Council had agreed orientations for this reform.

This will be **the first ministerial debate of the proposals** since the Commission adopted its economic governance package on 26 April 2023.

Background

The EU's economic governance framework is a set of common rules for national fiscal and economic policies which apply to all member states. It has been instrumental in **safeguarding macroeconomic stability and growth** in the Union and has helped member states achieve their economic and fiscal policy goals. These common rules serve to ensure the sustainability of public finances and promote convergence while addressing macroeconomic imbalances.

The economic governance framework is based on:

- **The Treaty on the functioning of the EU** – sets reference values for government deficits and debts (respectively 3% of gross domestic product (GDP) and 60% of GDP)
- **The stability and growth pact** – defines the rules for monitoring and coordination of national fiscal and economic policies
- **The six-pack** and **two-pack** legislations – reinforce fiscal surveillance after the financial crisis and create the macroeconomic imbalance procedure to ensure oversight of imbalances emerging outside the fiscal sphere
- **Code of conduct** documents - guidelines to interpret the six-pack and two-pack legislations

The EU is working on a review of the economic governance framework. On 9 November 2022, the Commission released a communication on orientations for a reform. The main novelty concerning fiscal rules in the communication is the introduction of four-year medium-term fiscal structural plans outlining country-specific fiscal adjustment paths, based on one single operational fiscal indicator (currently known as the expenditure benchmark). The Commission would initially propose fiscal paths based on a debt sustainability analysis, while member states could request an extension of the four-year path against national reforms and investment.

On 14 March 2023, in a spirit of compromise, member states were able to agree a way forward through Council conclusions. The Council's agreement on conclusions **highlighting areas of convergence of views among member states** as well as identifying issues for further work on a reformed framework constitutes an important milestone in the economic governance review.

Subsequently, the Commission presented its legislative proposals on 26 April 2023. This legislative package focuses on fiscal matters. It contains **three proposals**:

- A proposal for a new regulation on the effective coordination of economic and multilateral budgetary surveillance, replacing the existing preventive arm regulation of the Stability and Growth Pact.
- A proposal to amend the existing regulation on speeding up and clarifying the implementation of the excessive deficit procedure (EDP), which is the set of rules that come into effect if a member state breaches the Treaty reference values of 3% and 60% of GDP for public deficit and debt respectively. This is the corrective arm of the Stability and Growth Pact.
- A third proposal to amend the Council directive on requirements for budgetary frameworks of member states.

Member states have started analysing the proposals at the level of experts.

[Proposal for a new regulation on the effective coordination of economic policies and multilateral budgetary surveillance]

[Proposal to amend the regulation on the excessive deficit procedure]

[Proposal for a directive amending directive 2011/85/EU on requirements for budgetary frameworks of the member states]

[Economic governance framework: Council agrees its orientations for a reform (press release, 14 March 2023)]

[Economic governance framework (background information)]

Recovery and Resilience Facility

The Council will aim to adopt an implementing decision approving an amended recovery and resilience plan of **Estonia**.

During 2023, it is expected that gradually each of the 27 member states will submit revised recovery and resilience plans to access the new REPowerEU grants, to request available loans, to take into account the updated RRF allocation, or to request the transfer of funds from other programmes.

Background

The Recovery and Resilience Facility is the EU's programme of large-scale financial support in response to the challenges the pandemic has posed to the European economy. It is the centrepiece of NextGenerationEU, a temporary recovery instrument that allows the Commission to raise funds to help repair the immediate economic and social damage caused by the COVID-19 pandemic. The facility's €744 billion (in current prices) are used to support the reforms and investments outlined in the member states' recovery and resilience plans.

[Proposal for an amending Council implementing decision on Estonia's national plan]

[Annex to the proposal]

[A recovery plan for Europe (background information)]

European Semester

The Council will aim to approve its **recommendations** on the 2023 national reform programmes and it will aim to deliver its **opinions** on the updated stability or convergence programmes. Ministers will approve the Council recommendations with a view to forwarding them for endorsement to the European Council.

Background

Introduced in 2011, the European Semester enables the EU member states to **coordinate their economic, fiscal and employment policies** throughout the year and address the economic challenges facing the EU.

The Commission assesses EU member states' national economic policies and budgetary strategies, based on national reform programmes and stability or convergence programmes prepared each year in April.

On this basis, the Commission presents each country with a set of draft country-specific recommendations (CSRs) providing policy guidance on how to boost jobs and growth, while maintaining sound public finances.

The Council then adopts country-specific recommendations (CSRs) and opinions. It provides explanations in cases where it does not follow those proposed by the Commission.

[Commission recommendations for Council recommendations on the national reform programmes 2023 to each member state, delivering Council opinions on the updated Stability or Convergence Programmes]

[Council recommendations on the national reform programmes 2023 to each member state, delivering Council opinions on the updated Stability or Convergence Programmes]

[Council explanatory note accompanying the document to Council recommendations to member states under the European Semester 2023]

[European Semester (background information)]

Economic and financial impact of Russia's aggression against Ukraine

Ministers will discuss the **economic and financial impact** of Russia's aggression against Ukraine. Since the beginning of the war, this has been a regular agenda item for Economic and Financial Affairs Council meetings.

The Council will focus in particular on the **EU's macro-financial assistance for Ukraine.** The Commission will update ministers on the state of play as regards its implementation, and ministers will have the opportunity to comment on the information received.

Background

In 2022, the EU made available €7.2 billion in macro-financial assistance (MFA) and €620 million in budget support to Ukraine. €500 million in budget support were part of the pledges from the 'Stand up for Ukraine' global fundraising campaign and the high level international donors conference to help Ukraine address urgent housing, education and farming sector needs on the ground. Overall, the support provided or guaranteed by the EU budget for the year 2022 amounted to **€11.6 billion**.

In 2023, to continue supporting Ukraine, the EU is providing via the **macro-financial assistance plus (MFA+)** an unprecedented support package of up to **€18 billion**, in the form of highly concessional loans, of which €7.5 billion has already been disbursed (in monthly tranches of €1.5 billion). Disbursement of the next tranche (€ 1.5 billion) is planned for later in June.

[Outcome of written procedure on aid to Ukraine, minimum tax, Hungary's recovery plan and the conditionality mechanism (press release, 16 December 2022)]

[Council adopts €18 billion assistance to Ukraine (press release, 10 December 2022)]

[EU relations with Ukraine (background information)]

[EU response to Russia's invasion of Ukraine (background information)]

International meetings

Ministers will give **guidance for further work** as regards the preparation of the G20 meeting of finance ministers and central bank governors meeting of 14-18 July 2023.

The G20 meetings of finance ministers and central bank governors provide a forum for key countries in the international financial system to discuss major international economic issues and to coordinate the global economy's stable and sustainable growth.

[G20 website]

Business taxation: Code of Conduct Group

As an item without discussion, the Council is expected to approve conclusions on the **progress** achieved by the Code of Conduct Group during the Swedish Presidency (January to June 2023).

Background

The EU Code of Conduct (business taxation) is an important instrument of the EU, which **promotes fair tax competition, both within the EU and beyond.**

The original Code of Conduct was agreed by the EU ministers of finance in 1997 as an **intergovernmental**, legally non-binding **instrument**. It is used primarily to identify and assess preferential tax measures (i.e. measures that provide for a lower level of taxation than the level which is applicable in general) that are possibly harmful.

The Code of Conduct Group was established in 1998 to assess tax measures that may fall within the scope of the Code of Conduct. It is composed of **high-level representatives of the member states** and the European Commission. It is chaired by a representative of a member state, serving a mandate of two years, and assisted by the General Secretariat of the Council (GSC).

To **encourage positive change in tax legislation and practices** outside the EU, the Council established in 2017 the **EU list of non-cooperative jurisdiction for tax purposes**. The EU list is regularly revised by the EU ministers of finance following an in-depth review of the implementation of commitments taken by all third country jurisdictions that are part of the process. The Code of Conduct Group, assisted by the GSC, conducts technical work, screenings and assessments of third country jurisdictions on the basis of the screening criteria and the agreed geographical scope to prepare revisions of the EU list. The Commission services assist the group by carrying out the necessary technical preparatory work.

The next revision of the EU list of non-cooperative jurisdiction for tax purposes is scheduled for October 2023.

Draft conclusions

June 2023 report of the Code of Conduct Group to the Council

Code of conduct group on business taxation (background information)

Report to the European Council on tax issues

As an item without discussion, the Council is expected to approve the biannual Ecofin report to the European Council on tax issues. This report provides an **overview of the progress achieved** in the Council during the term of the Swedish Presidency, as well as an overview of the **state of play** of the most important dossiers under negotiation in the area of taxation.

The report will, among others, touch upon the following issues:

- Direct taxation:
  - Misuse of shell entities
- Indirect taxation:
  - VAT in the digital age;
  - Revision of the energy taxation directive
- Administrative cooperation in the field of taxation:
  - Directive amending Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC 8);
  - Automatic exchange of tax-relevant information with non-EU jurisdictions;
  - Administrative cooperation with other non-EU countries in the area of VAT;
  - Regulation on administrative cooperation in the field of excise duties;
  - Fiscalis programme for cooperation in the field of taxation;
- Code of Conduct Group (business taxation);
- UN resolution on promoting inclusive and effective international tax cooperation at the United Nations;
- Russia's aggression against Ukraine: supporting the implementation of EU restrictive measures and preventing their circumvention through tax cooperation instruments.