Taxation

The legal basis of the Taxation policy are Articles 90 to 93 of the Treaty establishing the European Community.

Within the EU, governments retain sole responsibility for direct taxes – the amounts they raise by taxing personal incomes and company profits. EU taxation policy focuses instead on the rates of indirect taxes like value-added tax and excise duties which can directly affect the single market. It also ensures that tax rules do not prevent capital moving freely around the EU and that free movement of capital does not create opportunities for avoiding tax. EU policy also targets tax rules which might limit the rights of EU citizens to work anywhere in the EU.

National governments are free to decide spending priorities and what taxes to use to raise the necessary money. They are also free to set the rate of tax on company profits and personal incomes, savings and capital gains. Member states' rights are protected by the fact that it requires a unanimous vote to make key changes to EU tax rules.

Minimum rates

Having minimum tax rates avoids serious distortions. They apply to mineral oils, including petrol, natural gas, electricity and coal. Minimum rates still leave room for variations to suit national circumstances.

There is EU-wide agreement on a minimum rate of 15% for VAT on most goods and services, but exceptions are possible. A higher standard rate is allowed within certain limits. So are lower rates, and exemptions for some items. Generally, these are restricted to goods and services not in competition with goods and services from another member state, like restaurant meals, or to the necessities of daily life, such as food and medicine.

The European Commission tries to limit exceptions as much as possible in the interests of the single market and fair play.

Company taxation that is fair for all

In the area of company tax, the EU has two goals: preventing harmful tax competition between member states and supporting the principle of free movement of capital. In the past, member states offered excessive tax incentives to attract foreign investment, sometimes at the expense of another EU country where the investment was economically more justified. Member states are now bound by a Code of Conduct to ensure they do not introduce anti-competitive tax breaks. They are phasing out any that still exist.

There are also EU rules or codes of conduct to ensure, in all member states, comparable tax treatment of cross-border payments of interest, royalties and dividends to sister and parent companies and of cross-border intra-company sales of goods and services (so-called transfer prices). Work is going on to ensure that member states all take the same approach to taxing groups of companies.

An equitable approach to savings and pensions

The EU rarely interferes in personal taxation. Where there are exceptions, they are designed to ensure that there is no discrimination against, or special benefit for anyone taking advantage of the opportunities of working or investing in another country.

For example, EU citizens should be able to accumulate pension rights when moving from one country to another without running into tax barriers and should not pay more tax on dividends on investments in other EU countries than they would pay on domestic investments.

EU citizens can place their savings where they think they will get the best return. However, tax remains due in their country of residence. EU governments lose legitimate revenue if their residents do not declare interest income on savings held abroad. As a remedy, EU and a number of other European governments have been exchanging information on non-residents' savings since 1 July 2005. Austria, Belgium and Luxembourg will apply withholding tax instead, for the time being, and will transfer a large part of that revenue to the investor's home country, so that the tax ends up where it is actually due.