Global Counsel

Who speaks for Europe’s taxpayers? The politics of tax in the EU’s recovery plan

Blog post by Director Tom White, 8 June 2020

As lockdowns across EU countries are lifted and exceptional financial support for businesses is wound down, attention is turning to economic stimulus. Germany’s package of tax cuts last week highlighted how consumption taxes can be an important tool for boosting and targeting consumer purchasing power: VAT will be cut from 19% to 16% for most purchases, and from 7% to 5% for the hospitality sector. The sunset clause at the end of 2020 provides a strong reason for consumers to bring forward major purchases during the next six months, supporting retailers, distributors and manufacturers. There will also be a doubling of subsidies for electric vehicles.

This policy innovation for indirect taxes must operate within EU rules: Germany has only been able to flex and differentiate its VAT rates within the confines of EU VAT directives. These set minimum and maximum rates, options for exemptions, and rules for calculating, collecting and sharing payments between governments. This is grounded in the recognition that purchases in the single market often take place across borders (and increasingly online). It is therefore one of the few areas of taxation within EU competence. These limits on national sovereignty for tax are also driven by a mix of concerns about the integrity of the single market and the euro zone, and a desire for solidarity between countries that derive greater or less benefit from both.

Common taxes in other areas have often been proposed, but rarely gained momentum due to the strong desire for national accountability on revenue-raising in many member states. However, the current settlement could now be significantly revised, with a renewed push in Brussels last week for EU-wide taxes. New “own resources” could give the commission an independent income stream, free from the need to negotiate each year with the member states. Proposals last week for new levies on carbon emissions, single-use plastics and digital services have triggered important debates not just about the merits and distributional impacts of those taxes, but also about the step-change in EU fiscal coordination they would represent.

For many member states looking to kick-start consumption, one issue will be retaining and exercising the kind of flexibility that Germany exercised this week. That move, along with the EU’s historic reticence to harmonise and centralise tax policy, also emphasises how political these choices are. Placing them in the hands of the commission – and with several commissioners claiming responsibility – raises questions for the longer term about political oversight, as well as about capabilities for changing taxes in response to the economic cycle.

With the wider commission budget package also representing a step change in EU spending, and a Conference on the Future of Europe to consider treaty change looming, it is likely France and other member states will revisit the idea of an EU finance minister. This proposal has been criticised as a solution in search of a problem, with so few fiscal (as opposed to monetary) policy levers controlled

at the EU level. However, if the member states are persuaded to put aside differences over new taxes, then the case for streamlining accountability and decision-making could become irresistible.