Council of the European Union

PRESS
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BACKGROUND[1]
Brussels, 19 May 2017

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 23 May in Brussels

*The Council will be called on to agree on a new system for **resolving double taxation disputes**. It will discuss progress on a proposal aimed at introducing a **common corporate tax base**, providing guidance for future work.*

*The Council will discuss the Commission's 2017 in-depth reviews of **macroeconomic imbalances**, covering 13 member states. It is expected to adopt conclusions.*

*The **movement of capital** and the outcome of spring **international finance meetings** are also on the agenda.*

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*The **Eurogroup** will meet on Monday 22 May at 15.00. It will discuss Greece's economic adjustment programme and post-programme surveillance in Spain. It will also review the economic situation in the euro area in the light of the Commission's spring economic forecast.*

*On Tuesday 23 March at 8.00, ministers will meet in their capacity as governors of the **European Investment Bank** for the EIB's annual governors' meeting.*

*They will then hold a breakfast meeting, starting at 9.00, to discuss the **economic situation** (in the light of the Commission's spring forecast).*

The Council meeting is scheduled to start at 10.00.

*At 14.00 (after the Council), the presidency and two next presidencies are scheduled to meet finance ministers from the **Western Balkans and Turkey** for a working lunch. This economic and financial dialogue is expected to lead to joint conclusions.*

Press conferences:

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

Eurogroup agenda highlights

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 will be called on to agree on a new system for resolving double taxation disputes within the EU.

The proposal sets out to improve the mechanisms used for resolving disputes between member states when disputes arise from the interpretation of agreements on the elimination of double taxation. It builds on convention 90/436/EEC on the elimination of double taxation in connection with the adjustments of profits of associated enterprises.

Situations where different member states tax the same income or capital twice can create serious obstacles to doing business across borders. They create an excessive tax burden, can cause economic distortions and have a negative impact on cross-border investment.

The proposed directive requires dispute resolution mechanisms to be mandatory and binding, with clear time limits and an obligation to reach results. It thereby sets out to encourage a favourable tax environment where compliance costs for businesses are reduced to a minimum.

The text allows for a ‘mutual agreement procedure’ to be initiated by the taxpayer, under which member states must reach an agreement within two years. If the procedure fails, an arbitration procedure is launched to resolve the dispute within specified timelines. For this, an advisory panel of three to five independent arbitrators is appointed together with up to two representatives of each member state. The panel ('advisory commission') issues an opinion for eliminating the double taxation in the disputed case, which is binding on the member states involved unless they agree on an alternative solution.

At an informal meeting in Valletta on 7-8 April, ministers expressed support for the proposal and called for its rapid approval.

The Council will require unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 115 of the Treaty on the Functioning of the European Union.) The Parliament's opinion is still pending.

Common corporate tax base

The Council will take note of progress on a proposal aimed at introducing a common corporate tax base in the EU.

The aim is to establish a corporate tax system that facilitates cross-border trade and investment and is more resilient to aggressive tax planning practices.

Currently, businesses with cross-border activities in the EU have to comply with up to 28 divergent tax systems. Divergent national tax rules create the risk of double taxation and double non-taxation, distorting the functioning of the EU single market. Business models and corporate structures are becoming more complex, making it easier to shift profits to avoid taxation.

The proposed directive is the first of an envisaged two-step corporate tax reform, establishing a common corporate tax base (CCTB) before introducing a consolidation of taxable corporate income (CCCTB).

In December 2016, the Council agreed that tax consolidation should be considered without delay once the elements of a common tax base have been agreed. Some member states have misgivings about the CCCTB project as a whole, but have agreed to pursue work in line with the December conclusions.

Ministers will be called on to reflect on the CCTB in a broad context, taking into account the international dimension and the eventual consolidation aspect of the project. The debate will not disrupt the schedule of technical work as envisaged in December.

The proposal establishes a single rulebook for calculating taxable company profits throughout the EU. On this basis companies would calculate their own tax liability, applying the tax rate and tax credits applicable in their member state of residence.

Specific provisions are intended to prevent corporate tax evasion. Revamping a 2011 proposal, the objective is a more transparent, efficient and fair system for calculating the tax base of cross-border activities.

The main changes in the 2016 proposal compared to the 2011 proposal are as follows:

- the scheme would be mandatory for large companies;
- to support innovation, a super-deduction would be allowed for research and development;
- a new allowance for growth and investment is provided for to address the current bias towards debt financing over equity financing;
- a temporary loss relief is provided for, pending agreement on the CCCTB.

The presidency is aiming to conclude discussions on these novel elements by the end of June 2017. It has already proposed amendments.

The Council will require unanimity to adopt the directive, after consulting the European Parliament. (Legal basis: article 115 of the Treaty on the Functioning of the European Union.)

- May 2017 note to the Council on the proposal on a common corporate tax base (9019/17)
- 2016 Commission proposal for a directive on a common corporate tax base
- December 2016 Council conclusions on corporate tax reform

Movement of capital

The Council will discuss:

- a report from the Commission on accelerating the EU's capital markets union and addressing national barriers to the free movement of capital;
- an annual report from the Economic and Financial Committee on the movement of capital and the freedom of payments.

National barriers

Capital markets have expanded over recent decades in Europe, but remain fragmented. Bank financing remains the predominant source of financing for businesses. According to the Commission, medium-sized companies in the United States receive five times more funding from capital markets than their EU counterparts.

The capital markets union initiative was launched in 2015 with a view to completion by the end of 2019. Since then the Commission has worked with member state experts to identify national barriers to cross-border capital flows, and to find the best way of addressing them.

The expert group has identified five types of national barriers to be addressed:

- burdensome withholding tax relief procedures;
- barriers to the cross-border distribution of investment funds;
- residence requirements for the managers of financial institutions;
- possible restrictions to cross-border investment by pension funds;
- lack of financial literacy amongst consumers and SMEs.

The report is the outcome of work by the Commission and the group of experts. It proposes next steps at the national level to secure a stable environment that will encourage the financing of business and infrastructure.

The Council will be called on to endorse those next steps.

Capital and payments

The chairperson of the EFC will present the committee's report for 2016 and summarise its discussions.

The report highlights progress made in improving access to capital markets under the capital markets union initiative, and in lifting capital controls introduced as a result of the financial crisis. It calls for further work on financial integration, given the persistent low levels of intra-EU capital flows in comparison to other jurisdictions.

The main political issues relate to intra-EU bilateral investment treaties and foreign currency loans.

- March 2017 EFC report on the movement of capital and the freedom of payments
- March 2017 Commission report on addressing national barriers to capital flows
- Commission action plan on capital markets union

Macroeconomic imbalances - In-depth reviews

The Council will discuss the Commission's in-depth reviews of macroeconomic imbalances in 13 member states.

It is expected to adopt conclusions on both the February 2017 reviews and implementation of its 2016 country-specific recommendations on economic and fiscal policies.

The discussion is expected to focus on stocks versus flows imbalances and the nature of current account surpluses.

The in-depth reviews determine whether a macroeconomic imbalance exists and whether it can be considered excessive. They are part of the macroeconomic imbalances procedure, which is conducted annually under the European Semester policy monitoring process.

The main findings of the 2017 reviews are as follows:

- Bulgaria, Croatia, Cyprus, France, Italy and Portugal are experiencing excessive economic imbalances;
- Germany, Ireland, the Netherlands, Slovenia, Spain and Sweden are experiencing economic imbalances that are not considered excessive;
- Finland is not experiencing economic imbalances.

Greece is not covered, as it is subject to enhanced surveillance under its macroeconomic adjustment programme.

The 12 member states experiencing macroeconomic imbalances will continue to be subject to specific monitoring.

In its conclusions, the Council is expected to underscore the need for policy action and strong commitment to structural reforms in all member states. This is particularly the case when facing macroeconomic imbalances that affect the smooth functioning of the euro area. The Council will emphasise that imbalances should be addressed in a durable manner.

Reform implementation has been uneven across policy areas and member states. Only in a few cases has substantial progress been made in addressing the country-specific recommendations issued in 2016. The Council will therefore highlight the need for implementation to be stepped up and to guard against reform fatigue.

- Press release on country reports and in-depth reviews under the 2017 European Semester

International meetings in Washington

The presidency and the Commission will report on the spring 2017 international finance meetings held in Washington D.C.:

- meeting of G20 finance ministers and central bank governors held on 20-21 April;
- IMF and World Bank meetings held on 21-23 April.

The next G20 summit will be held in Hamburg on 7 and 8 July 2017.

- 2017 German presidency G20 website

Other business

The Council will be updated regarding work on legislative proposals on **financial services**.

- May 2017 secretariat progress report on financial services dossiers