Council of the European Union

PRESS

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BACKGROUND[1]
Brussels, 4 March 2016

ECONOMIC and FINANCIAL AFFAIRS COUNCIL
Tuesday 8 March in Brussels

The Council will be called on to agree on a draft directive on the exchange of tax-related information (country-by-country reporting) between tax administrations, part of a package of proposals aimed at strengthening EU rules to prevent **corporate tax avoidance**.

It is expected to adopt conclusions on **fiscal sustainability**, on the strengthening of a code of conduct on **business taxation** and on excise duties for manufactured **tobacco**.

It will take note of progress on **banking union** dossiers, both as concerns implementation of existing texts and work on strengthening the EU's banking union.

The Council will discuss the outcome of a February **G20 meeting** and country reports under the "European Semester", the EU's annual **policy monitoring** process. It is also expected to adopt a recommendation on the economic policies of the **euro area**.

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The **Eurogroup** will meet on Monday 7 March at 15.00. It will discuss Greece and Cyprus’s economic adjustment programmes, the member states’ draft budgetary plans for 2016, Eurogroup transparency and the use of benchmarking by member states in the context of economic convergence.

On Tuesday 8 March at 9.00, ministers will hold a breakfast meeting to discuss the economic situation.

The Council meeting is scheduled to start at 10.00.

Press conferences:

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

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.

Press office - General Secretariat of the Council
Rue de la Loi 175 – B-1048 BRUSSELS – Tel.: +32 (0)2 281 6319
press.office@consilium.europa.eu - www.consilium.europa.eu/press

Measures to prevent corporate tax avoidance

The Council will be called on to agree on a draft directive on the exchange of tax-related information on the activities of multinational companies.

The draft directive is the first element of a package of proposals issued by the Commission in January 2016, aimed at strengthening EU rules to prevent corporate tax avoidance. The package builds on recommendations approved by the OECD in autumn 2015 to address corporate tax base erosion and profit shifting (BEPS).

The OECD's anti-BEPS action plan was endorsed at a G20 summit in Antalya in November 2015, and by the Council in conclusions adopted the following month.

The directive will transpose the OECD recommendation on country-by-country reporting into a legally binding EU instrument. This involves the reporting by multinationals to national authorities, on a country-by-country basis, of tax-related information including revenues, profits and taxes paid, and on the automatic exchange of that information between national authorities. This will enable the member states to identify risks of tax avoidance and to better target their tax audits.

The main issue to be resolved concerns the mandatory nature of secondary reporting by subsidiaries where ultimate parent entities of multnational groups are not EU tax resident.

The proposal builds on the EU's existing framework for the automatic exchange of tax-related information, established by directive 2011/16/EU. It covers multinationals with a total consolidated group revenue of at least €750 million.

Whilst this would cover only 10-15% of multinational enterprise groups, these groups hold 90% of corporate revenues.

By implementing country-by-country reporting, the EU will ensure that all member states, including 7 non-OECD members, exchange information as from the 2016 fiscal year. Furthermore, it will establish a level playing field with regard to country-by-country reporting, using the existing common communications network for information exchange. It will therefore save implementation costs.

Adoption of the directive will require unanimity within the Council, after consulting the European Parliament. (Legal basis: articles 113 and 115 of the Treaty on the Functioning of the European Union.) The European Parliament has not yet given its opinion.

As concerns work on the rest of anti-tax avoidance package, the presidency has set an ambitious timetable. The Council held a first exchange of views on 12 February 2016.

Presentation by the Commission of its proposals follows a number of initiatives taken in 2015. In December 2015, the Council adopted a directive requiring the member states to exchange information on cross-border tax rulings, i.e. the assurances they give to companies about how their taxes will be dealt with.

- March 2016 draft directive on the exchange of tax-related information on multinationals
- Anti-tax-avoidance proposals by the European Commission
- December 2015 Council conclusions on corporate tax base erosion and profit shifting
- Press release on December 2015 adoption of the directive on cross-border tax rulings

Banking union

The Council will take note of progress on banking union dossiers, both as concerns implementation of existing texts and work on strengthening the EU's banking union.

Regarding the latter aspect, the presidency will provide a brief update on progress on a proposal aimed at establishing a European deposit insurance scheme. And the Council will discuss related measures outlined by the Commission in its communication on completion of the banking union.

As concerns implementation of the banking union, the Commission will provide a brief update. The Council has regularly reviewed the situation since mid-2015.

On 1 January 2016, the SRM became operational and the single resolution fund (SRF), into which national resolution funds of the participating countries will gradually merge part of their funds, entered into force.

As of 2 March 2016:

– 20 member states, including all of the current 19 members of the banking union, had deposited their instruments of ratification of an intergovernmental agreement (IGA) on the SRF;

– the transfer to the SRF of contributions raised under the directive on bank recovery and resolution was almost complete;

– five of the 19 member states of the banking union had signed a loan facility agreement on bridge financing for the SRF;

– 24 of the 28 member states had fully transposed the directive on bank recovery and resolution, whilst the four others had partially transposed it;

– 22 of the 28 member states had fully transposed the directive on deposit guarantee schemes (DGSs), and another had partially transposed it.

The banking union currently comprises the 19 countries of the euro area, whilst 7 other member states have also indicated their intention to join.

The two directives apply to all member states.

The IGA contains provisions on the transfer of contributions to the SRF and the mutualisation of those contributions over an eight-year period. It has been signed by 26 of the 28 member states.

The bank recovery and resolution directive identifies the powers and instruments at the disposal of national authorities to resolve failing banks. It sets out to preserve essential bank operations and minimise taxpayers' exposure to losses in the event of a bank being resolved.

The directive on DGSs sets requirements for supervision and for regular stress tests of DGSs. All banks are required to join a DGS so that deposits of up to €100 000 are protected.

- Banking union
- Proposal for a regulation for a European deposit insurance scheme
- Commission communication on completion of the banking union

Fiscal sustainability

The Council is expected to adopt conclusions on fiscal sustainability, in response to a report from the Commission.

The report finds public finances in the EU to be more sustainable than they were at the onset of the financial crisis, under the effects of pension reforms and fiscal consolidation in particular. However significant challenges remain, mainly because of debt accumulated during the crisis years and projected public spending increases due to population ageing.

The fiscal sustainability report, published by the Commission every three years, provides an overview of the challenges faced by member states in the short, medium and long term.

The Council is expected to call on member states, especially those at high sustainability risk over the medium term, to focus on sustainability- and growth-oriented fiscal strategies. It will call for further analysis of demographic developments, including the effect of large migration flows on economic conditions and public finances.

To meet the fiscal sustainability challenge, it will advocate a three-pronged strategy consisting of reducing government debt, increasing productivity and employment and reforming pension, health care and long-term care systems.

The 2015 report was issued in January 2016. It analyses the fiscal situation of each member state, with reference to its debt level, its initial budgetary position and age-related expenditure projections, notably for pensions, healthcare and long-term care. (It however doesn't cover Cyprus and Greece, which have financial assistance programmes.)

According to the report, no country appears to face significant risks of fiscal stress from fiscal or macro-financial developments in the short run. Over the medium term, it finds Austria, Belgium, Croatia, Ireland, Finland, France, Hungary, Italy, Lithuania, the Netherlands, Poland, Portugal, Romania, Slovenia, Spain and the United Kingdom to be at high or medium fiscal sustainability risk. Over the long term, only Slovenia would appear to face high sustainability risks, whilst more than half of the member states would still face medium risks.

The report finds an overall public debt increase of about 30% between 2007 and 2015. After peaking at almost 89% of EU GDP in 2014, a downward trend in the ratio of public debt to GDP started in 2015 and is projected to continue until 2024, reaching 79.5%. It is expected to stabilise around that level until 2026.

The current context of very low inflation and low GDP growth poses additional challenges. Whilst the historically low interest rates tend to support the reduction of the debt burden, the interest bill would be raised if they were to normalise over the long run, carrying a risk especially for high-debt countries.

Meanwhile projections show that by 2060, age-related public expenditure will increase by 1.3% of GDP in the EU and 1.4% of GDP in the euro area. This is mainly driven by rising health care and long-term care expenditure. Because of the country-specific impact of population ageing on economic developments and expenditure programmes, there are considerable differences amongst member states.

- Draft Council conclusions on the 2015 fiscal sustainability report

International finance meetings

The presidency and the Commission will report on a meeting of G20 finance ministers and central bank governors held in Shanghai on 26 and 27 February 2016.

The Shanghai meeting was the first finance ministers meeting to be held under the Chinese G20 presidency. A G20 summit will take place in Hangzhou on 1-5 September 2016.

Additionally, the Council will ask the Economic and Financial Committee to finalise preparations for EU participation in G20, IMF and World Bank spring meetings to be held in Washington, D.C. on 15 to 17 April 2016.

Economic governance – Country reports

The Commission will present reports on the economic policies of the member states, prepared as part of the "European Semester", the EU's annual policy monitoring process.

The Council will hold an exchange of views.

The reports analyse the economic and social challenges that member states are facing and monitor their policy reforms. They include an assessment of implementation of the Council's country-specific recommendations under the 2015 monitoring cycle, as well as of member states' actions to address barriers to investment.

For 18 member states identified as experiencing macroeconomic imbalances, the country reports also present the findings of in-depth reviews. These member states are: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Slovenia, Spain, Sweden and the United Kingdom.

The findings of the country reports are intended to feed into economic and fiscal policy programmes that the member states are due to submit to the Commission in April 2016.

The 2016 European Semester will conclude with the adoption of new country-specific recommendations in July. The European Council will provide policy guidance in March, in the light of the overall macroeconomic situation.

- Country reports under the 2016 European Semester

Economic governance – Recommendation to the euro area

The Council is due to adopt, without discussion, a recommendation on the economic policies of the euro area.

The recommendation is part of the "European Semester", the EU's annual policy monitoring process.

The Council will recommend, essentially:

- the pursuit of sound economic policies;
- implementation of labour, product and services market reforms;
- the pursuit of fiscal policies in full respect of the Stability and Growth Pact, the EU's fiscal rules, with the objective of a broadly neutral aggregate fiscal stance in the euro area in 2016 and with a view to reducing public debt in 2017;

- facilitating the gradual reduction of banks' non-performing loans and improving insolvency proceedings for businesses and households;
- working towards completion of the EU's economic and monetary union.

It is the first time that a recommendation for the euro area is prepared at an early stage of the European Semester. The aim is to take greater account of eurozone issues when approving the country-specific recommendations later on. The European Council endorsed the draft at its meeting on 18 and 19 February 2016.

The 2016 European Semester will conclude with the adoption of new country-specific recommendations in July.

- March 2016 draft Council recommendation on the economic policy of the euro area
- Explanatory note on March 2016 recommendation on the economic policy of the euro area

Business taxation – Code of conduct

The Council is due to adopt conclusions, without discussion, on the strengthening of a code of conduct aimed at eliminating measures that can create situations of unfair tax competition.

The code of conduct is used in assessing the harmfulness of tax measures adopted, or that are in the process of being adopted, by the member states. The code dates from December 1997, and a working group was set up in March 1998 to oversee its implementation.

When the working group deems the nature of a tax measure to be harmful, the member state concerned agrees, on a voluntary basis, to suspend the measure ("standstill"), then to abolish it ("rollback"). Furthermore, the member states undertake not to introduce new measures that are harmful within the meaning of the code. Twice a year, normally in June and December, the group submits a report to the Council.

The group's voting rules require consensus for the adoption of general guidance, and "broad consensus" (i.e. all member states except the member state concerned) for the assessment of national tax regimes.

In 2013, the European Council called for a strengthening of the code on the basis of the group's existing mandate. Since then, work has been undertaken to reform the scope and governance of the working group. The Council adopted conclusions in December 2015, completing the first phase of that reform.

The draft conclusions foresee an enhancement of the governance, transparency and working methods of the group. The efficiency of the decision-making process will be improved by speeding up the assessment of a potentially harmful regime, and by an earlier and more frequent involvement of the Council. Information to the public on the group's ongoing and past work will be enhanced. The presidency intends a decision to be taken by the end of June 2016 on the revision of the group's mandate.

- March 2016 draft Council conclusions on the code of conduct on business taxation
- December 2015 Council conclusions on the code of conduct on business taxation

Excise duties – Manufactured tobacco

The Council is due to adopt conclusions, without discussion, on an evaluation of directive 2011/64/EU and on the structure and rates of excise duty applied to manufactured tobacco.

This comes in response to a December 2015 report from the Commission under its "REFIT" (regulatory response and performance) programme. Additionally, under directive 2011/64/EU, it is required to make a report every four years.

The draft conclusions call for efforts to be made to simplify and clarify the structure of excise duties on manufactured tobacco. Some products, such as e-cigarettes, do not fall into any of the categories of products subject to excise duty, and the conclusions set out a way forward for handling such issues. Any amendments to the directive should be proportionate to the objectives sought and should also aim to reduce tax fraud.

- Draft 2016 Council conclusions on the structure and rates of excise duty on tobacco

Other business

Under "other business", the Council will be updated as concerns work on legislative proposals on financial services.

- March 2016 secretariat note on progress on financial services legislative dossiers (5600/16)