EUROPEAN COMMISSION

Brussels, 23.11.2011
COM(2011) 815 final

VOL. 5/5 - ANNEX IV

ANNEX

GROWTH-FRIENDLY TAX POLICIES IN MEMBER STATES AND BETTER TAX COORDINATION IN THE EU

to the

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF REGIONS

Annual Growth Survey 2012

For the first time this report on "Growth friendly tax policies in Member States and better tax coordination" forms part of the Commission package to launch the European Semester 2012. The present report also follows-up on the European Council conclusions of 24 June 2011 which asked the Commission to report back by December 2011 on progress made in the structured discussions on tax policy issues in the context of the 'Euro Plus Pact' ([1]), notably to ensure the "exchanges of best practices, avoidance of harmful practices, and proposals to fight fraud and tax evasion." As a key input to the strengthened economic guidance, it should further pave the way for tax cooperation to develop more efficient tax systems in order to emerge from the crisis in a better and faster way. Elaborating the essential messages contained in the Annual Growth Survey, the report should also support the Member States to deepen their structured discussions on tax policy coordination, in a consistent and efficient way, in coherence with the recommendations defined or to be defined in the context of the European Semester ([2]) and the objectives of the Europe 2020 strategy.

1. CONTEXT

Taxation is particularly important in the current economic context in which Member States need to speed up their consolidation efforts. Member States have to consider revenue-raising measures, while at the same time preserve a still fragile European economic growth. Better tax coordination at the EU-level has a role to play in this context as it can be beneficial both for addressing common challenges and achieving national policy goals.

Enhancing the quality of taxation in the context of the European Semester of economic policy coordination will help them to achieve the balance between revenue raising and growth. The Country Specific Recommendations adopted by the Council on 12 July 2011 and closing the first European Semester highlight the importance of further tax reforms that give priority to growth-friendly sources of taxation while preserving overall tax revenues. Lowering taxes on labour to make work pay is singled out as a potentially important issue. The exchange of best practices and an enhanced dialogue between the Commission and Member States could be particularly helpful in this context. The need to improve the quality of taxation has further increased in the meantime hand in hand with the need to pay attention to the overall quality of fiscal consolidation and its impact on growth.

([1]) The Pact for the Euro, later called Euro Plus Pact, to include non-euro-area members on a voluntary basis, was established by the Euro area heads of state and government on 11 March 2011 and endorsed by the European Council on 24/25 March 2011. The Pact stipulates that: *"Pragmatic coordination of tax policies is a necessary element of a stronger economic policy coordination in the Euro area to support fiscal consolidation and economic growth. In this context, Member States commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion."*

([2]) A need for strengthening the European Semester of economic policy coordination to intensify surveillance of economic and fiscal policies and including the Euro Plus Pact into its procedures was identified in the Communication from the Commission on a roadmap to stability and growth, COM(2011) 669 final.

The European Semester process considers tax policy reforms at the level of Member States with a view to supporting economic growth and fiscal sustainability. At the same time, the exchange of best practices would strengthen the European Semester in the area of tax policies, benefit all Member States and provide helpful guidance on how to take common steps towards more sustainable, growth and jobs friendly tax systems, while meeting the need for substantial fiscal consolidation, removing distortions which contribute to macroeconomic imbalances and keeping their (re)distributional abilities.

Tax coordination is particularly needed in cases that involve cross-border issues. It can help to improve the efficiency of the Internal Market, given that some of the most important obstacles remaining in the internal market currently stem from uncoordinated tax policies of Member States. The integration of the EU single market, and the mobility of certain factors, mean that taxation influences economic agents' cross-border decisions. Mismatches between national tax provisions may act as barriers and prevent citizens and businesses from fully reaping the benefits of the integrated market. ([3]) Moreover, coordination can also help supporting the implementation of national growth-friendly tax policy strategies, for instance when it leads to the elimination of harmful tax practices and the prevention of fraud and tax evasion. Joint effort in fighting tax fraud and evasion can secure Member State's tax bases and help raising revenues without increases of the tax burden.

2. TAX POLICY CHALLENGES IN MEMBER STATES TO BE ADRESSED IN THE EUROPEAN SEMESTER

EU Member States are currently facing two overarching challenges in the area of tax policy. The first challenge is combating tax fraud and evasion, reducing tax gaps and improving the efficiency of tax collection which can play an important role in raising additional revenues. The second challenge is improving the growth-friendliness of the overall structure of taxation which is an important element of the universal challenge to enhance the growth potential of the EU economies. While this is a goal per se, it is also a condition for making public finance sustainable. In addition, many Member States need to improve the design of individual types of taxes, *inter alia* through broadening tax bases, and to enhance tax compliance and administration. Where successfully tackling these challenges still leaves the need for extra revenue, increases in tax rates might be necessary to consolidate public finances.

This section draws on the findings of the recently published Commission report '*Tax reforms in EU Member States 2011*'. ([4]) It employs a horizontal screening based on macroeconomic indicators, to tentatively identify the above-stated tax policy challenges in individual Member States. With a view to delivering feasible policy advice tailored to the needs of individual Member States, this preliminary assessment of national tax policies needs to be complemented by relevant country-specific evidence of more microeconomic or qualitative nature.

([3]) Monti, M. (2010), A new Strategy for the Single Market.
([4]) European Economy 5/2011 and Taxation Papers No. 28.

2.1. Contribution of higher tax revenues to consolidation

The consequences of the financial and economic crisis are, and will be, deeply reflected in Member States' government revenues. Having implemented a wide range of tax stimulus measures over the period 2008-10, the focus of tax policy has now clearly shifted towards a much needed consolidation of public finances. Some Member States could consider increasing tax revenues – as a complement to expenditure control – to consolidate their public finances. This is particularly relevant for countries that show unsustainable budgetary situations but, at the same time, have room for potential tax revenue increases. Research shows that revenue-based consolidation is more likely to be successful when the initial tax-to-GDP ratio is low. As a first priority, the need to increase tax revenues might be addressed by improving tax compliance and administration rather than by discretionary tax hikes. Where tax compliance is already high and/or revenue raising needs cannot be met by enhancing tax compliance alone, increasing the efficiency of taxation through base broadening measures such as reviewing tax breaks and reduced VAT rates should be considered (see section 2.3). As a last option, raising tax rates or introducing new taxes might be unavoidable in some cases. In gauging the appropriateness of tax-based consolidation, the availability of 'tax space' needs to be examined alongside the analysis of i) whether revenue raising measures have already been utilised extensively in the recent past and ii) whether there is scope for increasing revenues from tax categories least detrimental to growth. In selecting priorities for tax-based consolidation, Member States will most likely want to set their choices as a function of their available fiscal room for manoeuvre, their business cycle position and other microeconomic or institutional factors.

2.2. More growth-friendly tax structure

Potential for tax shift

A high tax burden on labour, especially on vulnerable groups, combined with low indirect and consumption taxation may indicate a need for rethinking the structure of a tax system. Economic literature points to the importance that tax composition plays for economic growth and suggests a ranking of the main categories of taxes with regards to growth, with taxes on immovable property being the least distortive to growth, followed by consumption taxes (including environmentally-related taxes) and, finally, income taxes (on personal and corporate income) being the most harmful.

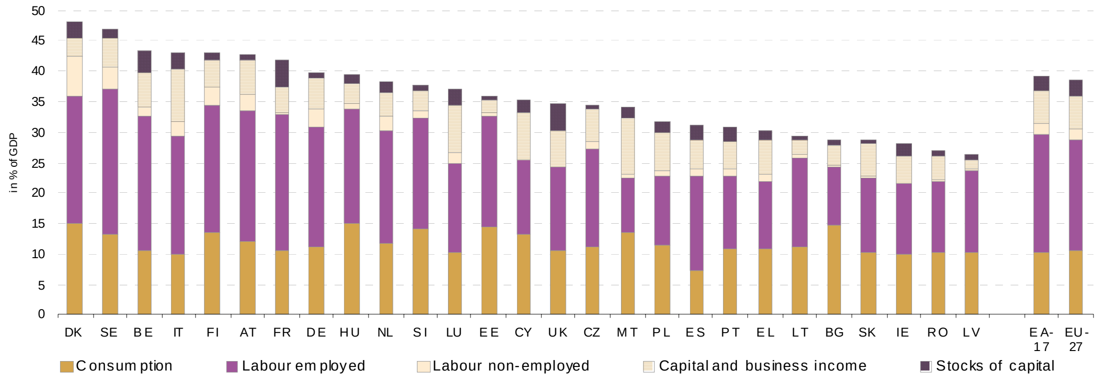
As already stated by the 2011 AGS, shifting taxes away from labour should be a priority for most Member States in order to stimulate demand for labour and create jobs. In particular, the participation rates for low-income workers and second earners are worryingly low, reflecting the need to make work pay for these vulnerable groups. Reforms of tax and benefit systems are also called for in order to facilitate the participation of second earners in the labour market and to reduce undeclared work and benefit dependency.

The analysis in the '*Tax reforms in EU Member States 2011*' report ([5]) of the potential to make the tax structure more growth-friendly suggests that some Member States might enhance economic growth by shifting their tax structure away from labour (personal

([5]) *ibid*.

income tax and social security contributions). Some Member States have recently shifted to some extent the tax burden towards consumption taxation, mainly by increasing VAT rates and excise duties. However, in a number of Member States, a high tax burden on labour is still matched by a relatively low share of revenues from consumption and other indirect taxes. Increasing consumption, environmental and/or housing taxation could be a way to alleviate the high tax burden on labour, while enhancing the growth-potential of the economy. Any reduction in the tax burden on labour should be focused on low-skilled workers and/or second earners, given that these groups often face particularly high disincentives to work while displaying a rather high elasticity of labour supply with respect to labour earnings.

Graph 1: **Total tax burden, decomposition by economic function, 2009, % of GDP**



Source: Commission services.

A re-profiling of labour taxation across income levels could also be considered. To enhance labour mobility and the efficient allocation of the housing stock, rebalancing housing taxation away from transaction towards recurrent taxes might be warranted. Increasing environmental taxes could also be considered, as they can contribute to fiscal consolidation through their medium term effects on growth, income, productivity and tax receipts ([6]) without losing sight of the fact that their tax base remains in general fairly modest and their primary goal is to correct environmental distortions.

Given that empirical studies tend to show that corporate taxes are the most detrimental to economic growth in general, Member States with a relatively high tax burden on corporate income should try to avoid increasing corporate tax rates at the current juncture. By changing the risk-return profile of entrepreneurial decisions, taxes on business profits may distort the capital accumulation and depress investment.

2.3. Broadening tax bases

In addition to the broad macroeconomic challenges for sustainability and growth discussed above, a number of more specific challenges related to the design of individual

([6]) Following the economic crisis, a number of countries have used higher environmentally related taxes as part of their fiscal consolidation strategies. Ireland is a clear case where higher fuel taxes, the introduction of a CO2 tax of EUR 15 per tonne (set to double to EUR 30 per tonne by 2014), and charges for water use comprise key elements in recent budgets.

taxes deserve particular attention with a view to increasing the efficiency of taxation. This applies in particular in cases where tax bases have been eroded by unjustified tax breaks and wide use of reduced tax rates. As mentioned above, rather than increasing tax rates (further), broadening tax bases should be high on the agenda to meet revenue-based consolidation needs.

Re-examining and reducing tax expenditure in direct taxation

The level of tax expenditures in direct taxation is an indication of the broadness of the tax base. Tax expenditures, which are de facto subsidies, are deductions, exemptions and deviations from a broadly-defined tax base. While they can be justified by equity and redistribution purposes, to correct externalities or to create positive or negative incentives, they often constitute unjustified preferential regimes that create economic distortions and lower the efficiency of the tax system. Cutting tax expenditures in personal and/or corporate income taxation broaden the tax base and reduce the complexity of the tax system. This could allow for raising additional revenues at constant (or even lower) tax rates. In addition, the reduction of compliance burden deriving from taxation could greatly improve the business environment. This implies increasing transparency and reducing complexities of tax codes and compliance regulations, simplifying payment procedures, including through the use of e-government, and ensuring the stability of taxation legislation.

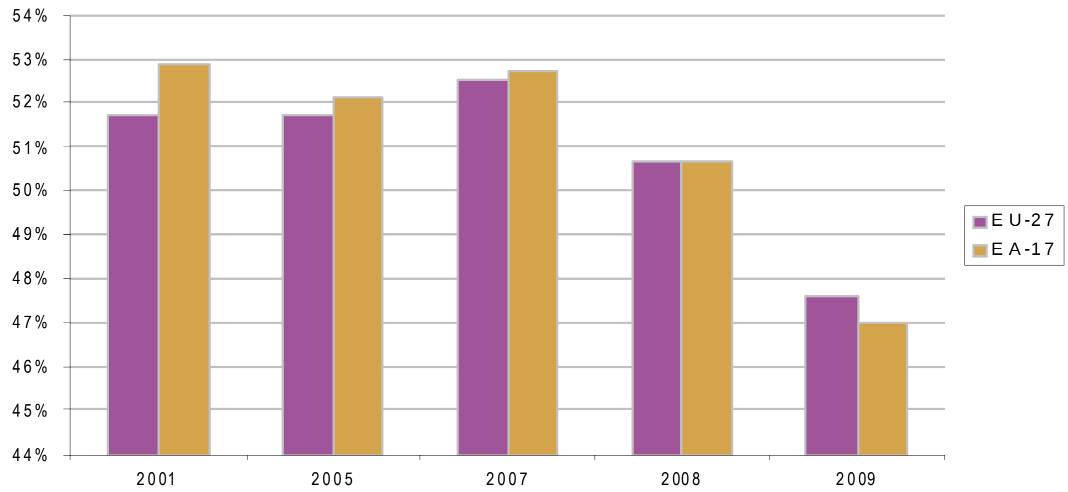
Raising VAT efficiency

VAT accounts for the majority of consumption taxation. Limiting VAT exemptions and the application of reduced rates, in respect of the VAT directive (2006/112/EC), will be instrumental in broadening the tax base and increasing overall tax efficiency ([7]). In many Member States, actual VAT receipts are far below the level that could theoretically be collected if a uniform consumption tax was established (see Graph 2 for average EU / EA values). In practice, the existing VAT system is far from uniform, mainly reflecting social policy objectives, which could be achieved more efficiently by other policy instruments. Member States apply widely differing VAT rates, thereby creating a highly diversified and complex VAT system.

Relatively low VAT revenues could also be due to tax fraud and evasion, the so-called 'compliance gap' which is particularly relevant for some Member States. Increasing VAT efficiency and compliance, through the removal of reduced rates as well as fighting tax evasion and fraud could substantially improve revenue collection and reduce economic distortions in many Member States.

([7]) Unlike reduced VAT rates, most exemptions are not optional for Member States and laid down in the VAT Directive.

Graph 2: Actual VAT revenues as % of theoretical revenues at standard rate



Source: Commission services

2.4. Better design of individual taxes

The 'Tax reforms in EU Member States 2011' report identified two other specific issues relevant for increasing economic efficiency in many Member States.

Reducing debt-bias in corporate and housing taxation

Corporate income tax systems and the taxation of housing investments in Member States lead to a 'debt bias' in the financing of investment.

The debt bias in corporate taxation mirrors the fact that interest payments on corporate debt are deductible from taxable profit, while the return on equity is not. The welfare costs related to this debt bias might not be negligible. More importantly, excessive debt levels increase the probability of default and the recent financial crisis has proved that the costs of adjustment can be substantial.

The debt bias in housing is also due to the tax deductibility of mortgage interest payments (or even capital payments) in the personal income tax that provides incentives for building up debt and overinvestment in housing, i.e. a misallocation of resources at the expense of (more) productive investment. This type of tax relief is considered to have contributed to the increase in housing prices and debt leverage, and thereby to the housing market bubble. There is evidence that countries that favour homeownership through a favourable tax treatment of mortgage debt financing also have higher ratios of mortgage debt to GDP.

Both debt biases lead to households' and businesses' financial decisions in favour of increased leverage being driven by tax incentives and not based on economic grounds. These distortions increase risk and volatility in the economy and can accentuate negative economic outcomes in cases where such risks materialise.

Developing environmentally friendly taxation

Given the context of austerity measures and budget consolidation, it seems extremely difficult to undertake environmental policy measures on the expenditure side of the budget. Thus, it is important to utilise the taxation framework as efficiently as possible in environmental policy. Environmentally harmful tax subsidies should therefore be phased out, while environmental taxes need to be properly designed. Of particular concern are subsidies to energy consumption via reduced VAT rates, tax favourable treatment of companies' cars ([8]) and inconsistent prices for CO2 emissions (e.g. reducing the implicit subsidies for diesel). The existence of these in many Member States ([9]) calls for rethinking the structure of environmental taxation in order to ensure proper incentives for environmental protection and better reflect the corresponding welfare losses. Moreover, to achieve a socially optimal level of environmental taxation, to benefit from the experiences of those Member States that have made intensive use of environmental taxes and to contribute to a level playing field for EU businesses, EU wide and international coordination should be enhanced.

2.5. The role of the European Semester and the exchange of best practices

An enhanced dialogue between the Commission and EU Member States can help support the quality of policy guidance in the context of the European Semester and can also help Member States to apply the policy guidance in an appropriate manner, taking due account of country specificities. Such an enhanced dialogue could take place in different fora:

- In the context of the High Level Working Party on Taxation, the Member States should share their views both on process and substance so that timely and forward-looking draft reports can be produced, which can serve as roadmaps for future work in the field of tax policy coordination.

- In the context of the Taxation Policy Group the Commission has had discussions with Member States on growth friendly design and assessment of taxes. It has also discussed some best practices, focusing in particular on the experience in shifts towards environmental taxes. More such exchanges should take place and could focus inter alia on tax administration issues to help Member States ensure better collection of their taxes.

- In the context of the ECOFIN Council, in particular in the Economic Policy Committee (EPC) attached to it ([10]), technical discussions should take place on

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([8]) According to estimations made for the Commission, favourable tax treatment of company cars leads to direct revenue losses close to 0.5% of EU GDP (€ 54 billion) and significant welfare losses of 0.1 to 0.3% of EU GDP (€ 12 to € 37 billion).

([9]) European Commission 2011, Tax reforms in EU Member States 2011.

([10]) The Committee was set up by a Council decision in 1974 to provide advice and to contribute to the work of the ECOFIN Council and the Commission. The core business of the Committee is structured around the following two interacting pillars: i) An economic policy pillar, which essentially refers to the Europe 2020 Strategy ii) A public finance pillar, where the EPC has particular responsibilities regarding quality and sustainability. Given the current economic situation, the EPC focus is on growth and jobs, in particular those reforms supporting competitiveness and adjustment capacity, as well as ensuring the sustainability of public finances.

the horizontal principles of growth-friendly and sustainability-oriented policies and on the basis of country experience to further strengthen the methodological and analytical underpinning of tax policy guidance.

Good and reliable data will also have a key supportive role. It is required in order to analyse, evaluate and compare past and future tax reforms, as well as to facilitate an exchange of good practices. The work on exchange of best practices could be strengthened by (i) the further development of the European Commission's web portal ([11]) on the main features of national tax reforms, including the assessment of their effectiveness; and (ii) the identification of indicative targets when relevant.

3. TAX COORDINATION AND EU LEGISLATION

Tax coordination within the EU or EU legislation, whose adoption can be considered expedient in areas particularly relevant for the good functioning of the internal market, can support the effort of Member States to make their tax system more growth friendly and improve the efficiency of tax collection.

Tax coordination and EU legislation are particularly relevant to address three different types of issues. First, tax coordination can contribute to removing obstacles to the Single Market and thereby creating a level playing field for businesses and individuals. Thus, coordinated tax measures can tackle double taxation as well as other tax measures which constitute cross-border obstacles on the Internal Market and for investment in the EU. Secondly, tax coordination can also play an important role in limiting and preventing non-taxation and abuse since such activities endanger the fairness and the efficient interaction between Member States' tax systems. This could lead to enhanced tax compliance and much needed additional revenue for national budgets. Finally, coordination can help prevent harmful tax competition and the ensuing "race to the bottom", reducing the capacity of Member States to tax mobile bases and forcing them to raise revenues from least mobile base, such as labour and especially low-skilled labour. This is likely to engender important distortions in terms of disincentives to work and higher labour costs for employers. Coordination could give back to Member States some useful room for achieving a better design of their tax policies.

The Commission has put forward several legislative proposals (see Box 1 below) that would, if implemented, improve the Single Market as well as the Member States' tax systems.

Box 1: Relevant European Commission proposals

The revision of the ***Energy Taxation Directive*** aims at adapting the internal market mechanisms of the existing Directive to the new environmental requirements. Its adoption would help Member States to redesign their overall tax structures, thereby potentially enabling a shift towards more growth friendly taxation.

The proposal on a ***Common Consolidated Corporate Tax Base (CCCTB***) aims at facilitating cross-border activities of companies, through a single set of rules for calculating the tax base of a

([11]) Tax reforms database.

company or group and through the definition of a one-stop-shop system for filing tax returns. Companies opting for this system could appreciably reduce compliance costs, which are currently high due to the coexistence of diverging national systems. It could also enhance tax transparency in the EU. CCCTB does not imply harmonisation of national tax rates and could be implemented in a revenue neutral way. It would contribute to the competitiveness of European businesses.

The proposal on a ***Common System of Financial Transaction Tax*** recently issued would ensure the proper functioning of the internal market in the area concerned and generate significant additional tax revenue from the financial sector to contribute to public finances.

The revision of the ***Savings Directive*** would extend its scope and ensure wider tax coverage of interest payments. The possibility of renegotiating the existing savings arrangements with third countries in line with the amendments to the Directive is also under consideration.

All four proposals, currently under discussion in the Council, aim at creating more of a level playing field for businesses in Europe, improving the functioning of the tax systems, while reducing scope for harmful tax practices, tax evasion and fraud.

The revamping of the VAT directive, as presented in the green paper and the upcoming Communication "Future of VAT", should be examined by Member States with a view to modernising and improving the current systems and deepening the Single Market.

3.1. Harmful Tax practices and sound business environment

Harmful tax competition can only be addressed through international cooperation within as well as beyond the EU. The Code of Conduct on business taxation, a soft law instrument which does not provide a legally enforceable set of rules, has been instrumental in removing many harmful tax measures.

Recently, the Code of Conduct Group has started to discuss more horizontal issues. One example is the promotion of the Code principles towards third countries. Last year, upon an invitation by the Council, the Commission started discussions with Switzerland and Liechtenstein about the application of the Code principles and criteria in these two countries. Another issue aiming at limiting tax avoidance and evasion concerns the co-ordination of anti-abuse measures.

Moreover, the Commission believes that tax planning at firm level has become increasingly sophisticated in the past 15 years: instead of simply benefitting from preferential tax regimes of one country, some businesses engage in complex tax engineering whereby tax benefits are achieved through the imperfect alignment of tax systems of two or more countries. These developments have triggered a debate about the current and future role of the Code of Conduct Group. The effectiveness of the Code of Conduct Group would benefit significantly from a new impetus and from a reinforcement of its mandate. Priority should be given to reinforcing common work on harmful tax practices. In particular, the work of the Code of Conduct Group should be expanded, in particular to ensure that mismatches between tax systems do not lead to harmful results for tax administrations or business. In particular mismatches can create situations of double non-taxation which can be exploited to reduce Member States tax revenues and to provide unjustified advantages to certain businesses. In the current difficult times such loopholes, which also undermine the spirit of the Single Market, must be tackled. If results cannot be achieved by the end of 2012, the Commission will look to its right of initiative as a means of addressing these important matters.

In addition to fighting harmful tax practices, tax cooperation is geared towards removing the existing tax obstacles that still continue to prevent economic operators from reaping the benefits that the Single Market can offer. Double taxation has been singled out as one of the most damaging remaining impediments on the Single Market. Double taxation has many different facets and work to address elements of the problem is ongoing. For example, the Commission has set up a Forum of experts to find solutions to transfer pricing problems. In addition, it is examining the extent of problems of double taxation faced by venture capital funds with a view to finding solutions for these funds which can be a valuable source of finance for SMEs. Determined to tackle the remaining problems, the Commission has adopted a Communication on Double Taxation that highlights where the main double taxation problems lie within the EU, and which outlines concrete measures that the Commission will take to address them. In doing so, the Commission seeks to remove real obstacles to a more competitive economy and make the EU easier to invest and do business in. ([12]) One of the options being explored is a possible binding dispute resolution scheme to remove double taxation within the EU in a comprehensive manner

Deeper market integration and elimination of distortions in the EU can also be achieved by finalising initiatives such as the proposal for a common consolidated base for corporate taxation. This scheme would offer the undertakings concerned the opportunity to opt for a common system, thereby avoiding important tax obstacles to cross-border activities. In addition, the adoption of the Energy Taxation Directive, which addresses shortcomings in the current directive would not only contribute to a true level playing field in the EU, but also facilitate a shift towards more growth friendly taxation.

3.2. Anti-fraud and tax evasion

A number of Member States faces the challenge of undertaking incentive-oriented policy measures to reduce tax gaps, by improving the efficiency of their tax collection and better preventing tax evasion. Firstly, the quality of administrative governance and a better understanding of taxpayers' behaviour are of key importance for optimizing the overall performance of the tax system and reducing tax administration costs. Secondly, the effectiveness of the enforcement activities will depend on the actual (staff and IT) resources put into detecting breaches of the rules, the penalties associated with violating rules and the control of the effectiveness of the enforcement process. The issue of good governance in the tax area has been discussed in the Taxation Policy Group and in the Council's High Level Working Party on taxation. A particular focus of the discussions was on how to improve transparency, exchange of information and fair tax competition.

Much work is being done at EU level, notably through the use of administrative cooperation provisions covering all areas of taxation. In the EU, the Member States should make the best use of existing tools to fight against tax fraud. In practical terms

([12]) European Commission (2011), COM(2011) 712 these activities can be supported by the Fiscalis programme ([13]) notably through joint actions to support cooperation between Member States.

Moreover, within the EU, Member States are currently considering the revision of the Savings Directive so as to extend its scope and better ensure the taxation of interest payments which are channelled through intermediate tax-exempted structures. They are also considering the possibility of renegotiating the existing savings arrangements with third countries in line with the amendments to the Directive. The Council should now complete its work on the Savings Tax Directive and should quickly approve the negotiating mandates allowing the Commission to open discussions with third countries in this field.

Beyond the EU, the negotiations of EU agreements with third countries, such as Partnership and Cooperation Agreements (PCA) and Economic Partnership Agreements (EPA), should be an opportunity to ensure that third countries commit to the principles of good governance in tax matters. Initiatives to protect Member States against non-cooperative jurisdictions must also be part of the overall approach. Further work on good governance in tax matters in international fora such as the OECD and G-20 has been started. In order to retain the credibility of pressure on uncooperative jurisdictions the degree of coordination of the Member States' approaches should be strengthened. This could include a common application of countermeasures against those jurisdictions. This alignment of measures and greater coordination of Member States positions in international fora are essential in combating tax fraud.

In its recent Communication "Towards an EU Criminal Policy: Ensuring the effective implementation of EU policies through criminal law" the Commission has emphasised the importance of criminal law to ensure the effective implementation of EU policies. The Commission believes that working within this framework could be a step forward in tackling tax fraud, and in particular its cross border dimension. Hence, the Commission will examine how the framework established in its recent initiative in criminal law can be used to target strengthened measures against tax fraud.

4. CONCLUSIONS

Tax coordination and exchange of best practices are vital for growth and consolidation efforts, in particular in the current economic context where quality of revenue matters and where several Member States may need to consider revenue-raising measures. Many growth-enhancing tax reforms can be implemented individually by Member States. Enhanced dialogue between EU Member States can, however, prove beneficial in the implementation of national tax policy strategies, for instance when it leads to the exchange of best practices or the elimination of mismatches between national systems. In addition, some reforms benefit from coordination between Member States and EU

([13]) The Programme Fiscalis substantially supports tax coordination between Member States by providing a framework for cooperation between national tax administrations and further enhancing coordination between existing national tax systems. The proposed FISCUS 2020 programme aims at making national tax administrations more effective and efficient when dealing with cross-border transactions. Thus, they will be enabled to more successfully fight tax fraud and increase tax returns.

legislation since cross-border spill-over effects may constrain the taxing capacity of an individual Member State.

The European Semester alongside various EU fora, allows for considering tax policy reforms in Member States with a view to supporting economic growth and fiscal sustainability, while establishing integrated economic policy coordination within the EU. An enhanced dialogue between Member States and with the Commission, including the exchange of best practices, could support the analytical quality of policy advice in the context of the European Semester, while taking due account of country specificities. It could and should take place in the existing EU fora, including the Council's High Level Working Party on taxation, the Taxation Policy Group and the ECOFIN network, in particular the Economic Policy Committee.

Coordinated actions at the EU-level and EU legal initiatives should make different tax systems more compatible with the Single Market and limit the negative spill-overs of national tax policies. They support the effort of Member States to make their tax systems more growth friendly, and contribute to removing substantial obstacles to the Single Market. EU legislative initiatives have been taken in areas particularly relevant for the good functioning of the Single Market, such as taxation of savings, energy and corporate income. In order to contribute to economic efficiency and deepen the Single Market, the Council is invited to finalise these proposals rapidly. Moreover, the future of VAT system deserves particular attention given its importance for the proper functioning of the Single Market. Fighting against tax haven and double taxation remain other key challenges, which require mobilising both existing and new instruments.