

Regulatory and Taxation Reform

The European Perspective

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- Federal countries in Europe (ex: Belgium)
 - Problems linked to income taxation
 - Problems linked to mobility and environmental taxation
- European Union
 - Problems linked to the VAT
 - Existence of externalities
 - Need for coordination between independent States
- Limits of the comparison
 - Geography
 - Population
 - Area
 - GDP

	European Union	Brazil
Population	370 millions	172 millions
Area	3 252 678 km ²	8 511 965 km ²
GDP	8000 billion \$	1010 billion \$

Lessons from fiscal federalism

- Three goals are to be reached when designing fiscal organization :
 - Assuring enough fiscal revenues for each level
 - Limiting fiscal externalities (depends on the degree of mobility of the tax base)
 - Minimizing management costs (compliance and administrative costs)

The EU experience

- Why did the debate take so long to start ?
 - Fiscal policy is an important element of national sovereignty
 - The decision process is unanimity between the Member States

The EU experience

- Why did the debate become so urgent ?
 - Free movements of goods, services, capital and people since 1993
 - Introduction of the common currency
 - As a consequence: more concentrated activities, more mobile tax bases, distortions in the allocation of investments and fiscal revenue distortions

Value Added Tax

- Present situation:
 - Destination-based taxation
 - Partial harmonization
 - Absence of fiscal competition through firms but...
- Evaluation:
 - A lot of cheating by firms
 - A lot of cross-border shopping
- Solution:
 - A return to an origin-based taxation with more harmonization

Corporate taxation and savings revenues taxation

- Present situation:
 - Member States are totally sovereign
 - No coordination at all
- Evaluation:
 - Distortions in the allocation of investments
 - Distortions in fiscal revenues
 - Loss of fiscal revenues

Corporate taxation and savings revenues taxation

- Solution : the **“Tax Package”**
 - Definition, identification and elimination of “ring-fencing” harmful fiscal measures w.r.t. corporate taxation
 - Information exchange on savings of non-residents
- “Soft law” approach

Lessons for Brazil

- VAT race-to-the-bottom suggests need for minimum harmonization
- Mobile tax bases are usually of federal competence
- A reflexion on tax assignment should go together with a reflexion on intergovernmental and equalization transfers (what is not possible in EU)