EU Direct Tax Newsalert

EC proposes post-Covid-19 recovery package, ponders new taxes

On 23 April 2020, the European Council decided to work towards establishing a recovery fund to respond to the socio-economic consequences of the COVID-19 crisis. It tasked the European Commission (EC) to analyse the exact needs and to urgently come up with a proposal 'commensurate with the challenge'.

On 27 May 2020, the EC issued proposals for an EU-wide post-COVID-19 Recovery Fund, 'Next Generation EU' and amendment to the current multiannual EU budget (Multiannual Financial Framework; 'MFF') for 2014-2020.

The EC proposes to create a new recovery instrument which involves raising temporarily the current EU's 'own resources' ceiling to 2% of EU Gross National Income. This would allow the EC to use its credit rating to borrow € 750 billion on the financial markets for Next Generation EU.

The EC says that additional funds raised would be channelled through EU programmes such as its flagship European Green Deal and the EU's digital agenda. The funds would need to be repaid through future EU budgets but 'not before 2028 and not after 2058'. To help do this in a 'fair and shared' way, the EC proposes possible new own resources such as:

- **an own resource based on the operation of large companies 'that draw huge benefits from the EU single market'** (a 'single market tax'; EC estimated yield: around € 10 billion annually);
- **a digital tax on companies with a turnover > € 750 million,** if no global agreement is reached at the OECD (EC estimated yield: up to € 1.3 billion annually);
- **An Emissions Trading Scheme-based own resource** (EC estimated yield: 10 billion annually); and
- **a Carbon Border Adjustment Mechanism** (EC estimated yield: € 5 billion -14 billion annually);

These will be in addition to the EC's proposals for own resources based on a simplified VAT and non-recycled plastics.

To ensure that solidarity and fairness is at the heart of the recovery, the EC will step up the fight against tax fraud and other unfair practices to help Member States generate the tax revenue needed to respond to the major challenges of the current crisis. The EC says that a common consolidated corporate tax base (CCCTB) would provide business with a single rulebook to compute their corporate tax base in the EU, and that tax simplification can improve the business environment and contribute to economic growth.

The EC also proposes to make funding available instantly to respond to the most pressing needs by amending the current MFF 2014-2020 to make an additional €11.5 billion in funds available in 2020 for:

- Support to Member States with investments and reforms;
- Kick-starting the EU economy by incentivising private investments; and
- Addressing the lessons of the crisis.

The EC also unveiled an adjusted EC Work Programme for 2020 to propel Europe's recovery and resilience. Direct tax-related:

- EC (non-legislative) Communication on Business Taxation for the 21st century: postponed from Q2 to Q4 2020;
- EC Action Plan to fight tax evasion and to make taxation simple and easy (legislative & non-legislative, incl. impact assessment), including 'tax good governance in the EU and beyond' (non-legislative) and 'revision of the Directive on automatic exchange of information' (legislative): Q3 2020;
- Review of the non-financial reporting by large companies Directive (legislative, incl. impact assessment): postponed from Q4 2020 to Q1 2021.

Next steps and takeaway

The EC's recovery package follows closely a recent Franco-German proposal. However, Austria, Denmark, Netherlands and Sweden prefer a recovery fund based on loans, not grants and oppose raising the EU's budget. Furthermore, giving EU-level taxing rights to the EC is controversial among Member States. EU-27 leaders will debate the plans at the European Council meeting on 18-19 June 2020. The EC plans require unanimity in the Council and the consent of the European Parliament.

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