Finnwatch submission to EC consultation: Action Plan to fight tax evasion and make taxation simple and easy

We greatly welcome EC's Action Plan to fight tax evasion and make taxation simple and easy. The need for increased measures to tackle tax evasion and tax avoidance is bigger than ever, as the economic impacts of coronavirus are to be significant and at the same time just transition to climate resilient society also requires public funding.

The Action Plan points out correctly that vast amounts of money are currently lost due to tax evasion. However, there is no reason to limit the scope of the Action Plan to (illegal) tax evasion only as the costs of (legal) tax avoidance are very likely to be much greater. Thus, we strongly suggest that tax avoidance - both by corporates and individuals - is included in the key problems covered by Action Plan and the measures suggested to tackle the problems are updated correspondingly.

In regard to the concrete steps presented in the Action plan, we warmly welcome the objectives of simplification and modernisation of tax rules as well as the development of an External Strategy to guide new tax initiatives with external implications (incl. developing countries). However, we think the simplification and modernisation should not be limited to VAT rules - instead, corporate income tax should be a top priority. In practice, we strongly suggest that EU-wide tax harmonisation measures such as CCCTB, digital tax and minimum effective tax are taken into the Action Plan. These measures would lighten the administrational burden of internationally operating businesses by harmonising tax rules in EU area. They would also help to tackle tax avoidance as the loopholes caused by non-harmonised tax systems would no longer exist. Further, the digital tax, particularly, would broaden the tax base and put an end to the tax avoidance of major digital companies.

Some may argue that there is no point promoting CCCTB, digital taxation or minimum tax on EU level as all these aspects are currently discussed as part of the OECD tax reform. However, it does not look likely that the OECD tax reform process would either be completed in the near future or lead to a solution that would ensure a fair and effective international tax system. Thus, it is still important to look for more progressive solutions on EU level.

New transparency measures are also needed, and introduction of public CBCR would be the most efficient way to increase the transparency on tax information.

As regards to External Agenda, we suggest that EC carries out a careful in-depth analysis of the effects that current and planned EU tax policies (both EU-wide and member country policies) have on developing countries.This analysis should then guide any future measures taken. Increased technical assistance to developing countries is highly recommended. Further, EU should support increasing the role of UN tax committee (or other relevant UN body) in the discussions relating to global tax rules reforms. This would enable the participation of all countries on an equal footing, whereas only a limited number of developing countries are involved in the OECD Inclusive Framework.

Following the wider scope proposed above, concrete steps relating to tax avoidance should also be added. These include tightening the anti-avoidance rules included in ATAD as the current minimum level requirements are rather loose in the light of OECD BEPS recommendations. Interest limitation and CFC rules, in particular, still leave too much space for profit shifting.

Finally, measures to tackle tax avoidance of individuals is also essential, since this phenomenon is not only decreasing the tax income in many countries, but also leading to increased inequality. The root cause, in many countries, is the lower level of capital gains taxation as compared to ordinary income taxes. Setting minimum levels for capital gains taxation could help to ease the situation and imposing an EU-wide exit tax for individuals would help to secure the tax bases of member states.