EUROPEAN PARLIAMENT

SUBCOMMITTEE ON TAX MATTERS (FISC)

EXCHANGE OF VIEWS WITH SHADOW RAPPORTEURS ON THE OWN-INITIATIVE REPORT "THE ROLE OF SIMPLE TAX RULES AND TAX FRAGMENTATION IN EUROPEAN COMPETITIVENESS"

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Honourable Members of the Committee,

I am grateful for the opportunity to submit these observations regarding the "Draft Report on the role of simple tax rules and tax fragmentation in European competitiveness" of 24 March 2025 (2024/2118(INI) (the "Draft Report").

Europe currently stands at a critical juncture: the digital revolution and the push for environmental sustainability coincide with rapidly shifting geopolitical dynamics. In addressing these challenges, effective and fair taxation policies will be critical to ensuring Europe's competitiveness, fostering innovation, and protecting the Single Market.

I. Context

Taxation and geopolitics are intimately linked. Europe's stability, resilience, and capacity to integrate more deeply rely in no small part on how it designs and enforces tax policies. By fostering clarity and fairness, the European Union can promote economic growth, enhance trust in public institutions, and ensure that businesses of all sizes can operate on a level playing field. A fundamental concern is the need to adapt long-established tax frameworks to the realities of digitalization. Technological advances demand innovative tax policies that stimulate investment and protect Member States' revenue bases, all while placing minimal burdens on taxpayers. An equally pivotal challenge is the environmental transition, which calls for adaptable tax frameworks aligned with sustainability goals. This transition can be an opportunity for the EU to promote green technologies while ensuring the continued growth of innovative industries.

As a European citizen, I believe that the role of this Committee can be crucial to ensure political accountability on topics that are often complex and not easy to explain to the electorate.

II. The Draft Report

The scope of the Draft Report is very broad, encompassing a wide range of areas, including:

(i) taxation and the business environment;

(ii) competitiveness and economic growth;

(iii) tax simplification and digitalization;

(iv) the OECD Pillar One and Pillar Two initiatives and international taxation;

(v) tax barriers within the single market;

(vi) combating tax evasion and aggressive tax planning;

(vii) cross-border taxation and labour mobility;

(viii) taxation and innovation.

The content of the Draft Report is aligned with broadly shared principles, making it difficult to express disagreement with its general orientation. The primary challenge, however, lies in translating these principles into actionable and effective policy measures.

This is why this contribution will focus on concrete and technical input to support the Committee's ongoing work, and in particular in actions that could be undertaken, distinguishing between short-term (2025), medium-term (2028), and long-term (2035), acknowledging that many of these measures are cross-cutting and relevant to multiple policy domains simultaneously.

III. Actions

a. Short-term actions

i. *Agreement on the Global Minimum Tax*

The landscape is complex, with major economies adopting varied positions. While jurisdictions such as the EU, Japan, and Canada have implemented the rules, others like China and India have not but do not seem to oppose them. The United States, on the other hand, have not implemented the rules and have expressed opposition at political level, in particular on the UTPR and on the design of the Income Inclusion Rule (IIR).

In this context, strong political oversight is essential to ensure the legitimacy and coherence of any deal at global level. A scenario where the rules are effectively enforced only on EU multinationals would be highly undesirable. If concessions are made, they should be equally available to EU multinational enterprises.

This juncture could also offer a strategic opportunity to align the GMT with EU industrial policy objectives. For instance, adjusting the Substance-Based Income Exclusion (SBIE) to better accommodate R&D incentives, or exploring a global (rather than jurisdictional) approach to the Effective Tax Rate (ETR) calculation, could help balance competitiveness with tax integrity.

ii. A Possible EU-Wide Digital Services Tax

A political decision on a potential EU-wide Digital Services Tax (DST) requires a frank and balanced debate, both within the European Union and beyond. It is important to move away from the misconception that DSTs are designed to ensure that large tech companies "pay their fair share": that was never the original intent. From the outset, as highlighted in the first OECD BEPS report on the digital economy of 2015, the core issue was not aggressive tax planning or avoidance, but rather the need to rethink fundamental tax principles in light of the pervasive digitalisation of the economy.

DSTs are, in essence, a tool to tax the value generated through the extraction and monetisation of user data from a jurisdiction – whether through targeted advertising, data sales, or digital intermediation.

In practice, DSTs have proven to be relatively easy to administer and have generated increasing and meaningful revenues over time in countries that have implemented them. Crucially, DSTs are not inherently discriminatory, as they apply to both domestic and foreign businesses and their scope is also expanding due to business developments, such as in the context of connected cars, smart homes, or wearables.

However, it is important to note that not all taxes labelled as DSTs serve the same function. Some are, in reality, withholding taxes on digital services, and this had possibly muddled the debate on DST.

It may now be appropriate to consider a harmonised EU DST, possibly as an own resource, with a clear policy objective: to tax the extraction of user data, not to penalise specific business models

b. Medium-term actions

i. Remote Work

Even before the pandemic, the nature of work was evolving. Today, employees and self-employed can seamlessly provide their services online, often crossing multiple jurisdictional boundaries without geographic constraints.

This evolution demands an EU policy that addresses individual income taxation and social security contributions in a coherent manner, while also clarifying the impact on the employer in terms of permanent establishment exposure and attraction of residence. Considering the introduction of safe harbours to avoid a multitude of “micro-permanent establishment” should be the way forward.

These measures should strive to promote the Single Market’s freedom of movement while preventing undue complexity or unfair tax competition among Member States.

Withholding Taxes and Competitiveness

Fragmented withholding tax procedures across EU Member States remain a significant barrier to the effective functioning of the Single Market, placing a disproportionate burden for cross-border investors – especially SMEs.

The FASTER Directive is welcome and represents a positive first step. However, implementation across Member States must be closely monitored to ensure consistency and reduce administrative complexity

Additionally, greater focus should be placed on ensuring coherent and coordinated withholding tax rules – both within the EU and in relation to third countries – particularly concerning interest and dividend payments to non-resident investors. Addressing these issues is essential to eliminate obstacles to cross-border investments and fostering a more integrated and competitive investment landscape across the EU.

c. Long-Term actions

i. Tax Policy in a Technologically Driven Future

The growth of new technologies—from the digital euro to blockchain systems and AI tools — creates new opportunities to reimagine taxation. In the coming years, policymakers should work toward a tax ecosystem that is seamless, integrated, and makes use of emerging technologies to improve compliance and enforcement, while safeguarding privacy.

There are important academic institutions whose work could be leveraged upon to this end.

For instance, it could be considered integrating smart contracts with digital currencies might automate the calculation and remittance of withholding taxes on specific types of payments, thereby eliminating administrative burdens and mitigating risks of evasion. This modernization could be achieved while simultaneously protecting sensitive personal data and safeguarding against potential abuses of automated systems.

IV. Concluding Remarks

Europe stands at a "make-or-break" moment. Taxation is a crucial shaping tool, capable of incentivizing change, supporting fledgling industries, and sustaining fair competition.

By engaging stakeholders, employing evidence-based policymaking, and closely monitoring the outcomes of any legislative action, the Committee can contribute actively to this transformative period, so that Europe can emerge stronger, more united, and well-prepared for the challenges of tomorrow.

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Thank you for taking the time to consider these views. I remain at your disposal for further clarification and stand ready to support any collaborative efforts toward a fair and forward-looking taxation policy.

Raffaele Russo