

CFE EUROPEAN TAX REPORT 2006/04

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LATEST EUROPEAN DEVELOPMENTS

European Commission:

► **VAT / Financial services & Insurance - European Commission launches online consultation on reforming EU legislation**

The European Commission has launched an online consultation for views from the public and business on reforming Community legislation on VAT and Financial Services. The consultation is based on a paper which seeks views on the current legal framework as set out in the Sixth VAT Directive (Directive 77/388/EEC), and options for change. It explains why there is a need to review Community legislation in this area. In particular, it looks at why there is a need to ensure that it reflects the world as it is today, taking account of the changes that have occurred in the intervening 30 years. Closing date is 9 June 2006 and a Conference scheduled for 11 May.

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► **State aid: Commission requests phasing out of distortive tax regimes in Malta**

The European Commission has formally requested Malta under EC Treaty state aid rules to abolish the tax regime for Maltese Companies with Foreign Income (CFI) and the International Trading Companies' (ITC) regime by the end of 2010 at the latest. Under these regimes, revenues from foreign sources paid to shareholders of an ITC or a CFI are subject to minimal or no taxation. The Commission intends to put a definitive end to these offshore tax regimes because they seriously distort competition and trade in the Single Market. Malta has one month to accept the proposed measures, failing which the Commission may open a formal state aid investigation.

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► **Commission requests phasing out of Spain's tax incentives for investment abroad**

The European Commission has formally requested Spain under EC-Treaty state aid rules to abolish tax incentives in favour of Spanish companies investing abroad. The Commission requests that the incentives are gradually eliminated by the end of 2010, as they are distorting competition and trade within the Single Market. Spain has one month to accept this request, failing which the Commission may open a formal state aid investigation.

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► **The European Commission's business taxation agenda, speech by Commissioner Kovács**

"The subject of this conference, "the impact of business tax in an international context", is very topical. It is also one I am particularly concerned about. This evening I want to focus on three issues: First, what should our tax policy priorities be? Second, what role is there for the EU? And third, how should we work out our policies? For me and for the European Commission as a whole, the priority is what we call in Brussels the Lisbon objectives or, in other words, the growth and jobs Agenda. Amongst other things this means reinforcing the single market. One of the ways we can do this is to cut out the inefficiencies inherent in tax obstacles by preventing them from hindering cross-border activities."

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► **Accounting standards: Commission and European Financial Reporting Advisory Group (EFRAG) agree future working relationship**

The European Commission and the European Financial Reporting Advisory Group (EFRAG), which is composed of accounting experts from the private sector in several Member States and provides the Commission with advice on the technical soundness of new accounting standards, have agreed their future working relationship. In particular, EFRAG will continue to provide the Commission with advice on the endorsement and interpretation of International Financial Reporting Standards (IFRS). It will also provide opinions on the development and improvement of the standards and on how to implement them effectively.

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► **Financial markets: Inter-institutional Monitoring Group publishes first report on "Lamfalussy process"**

The Inter-institutional Monitoring Group (IIMG) has published its first interim report on the "Lamfalussy Process", which aims to create a more efficient system for the EU institutions to prepare, adopt and implement new legislation to integrate financial markets. In the report, based on evidence given by the stakeholders closely involved in the Lamfalussy process and market participants, the Group asserts that there is general and strong support for the Lamfalussy approach. Notwithstanding the progress made, the Group has identified a number of unresolved questions and uncertainties surrounding the procedure, which remains "a learning-by-doing process".

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The Council:

► **Council Decision of 27 February 2006 authorising the Netherlands to apply a derogation from Sixth VAT Directive to prevent VAT avoidance**

The Council decision of 27 February 2006 authorising the Netherlands to apply a measure derogating from Article 11 of the Sixth Directive 77/388/EEC on the harmonisation of the laws of the Member States relating to turnover taxes has been published in the Official Journal.

Official Journal (s.45): [EN](#) [FR](#) [DE](#)

► **Council Meeting, Economic and Financial Affairs, 14 March 2006**

The Council gave its opinion on updated stability and convergence programmes presented by a third series of member states (the first two series were approved in January and February). The Council also prepared a number of dossiers to be referred to the spring European Council, in particular as concerns the Lisbon reform strategy and the European Investment Bank's contribution to growth and employment measures.

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European Court of Justice:

► **Opinion of the Advocate General in the case C-475/03, Banca popolare di Cremona**

Advocate General Stix-Hackl concludes that the sixth VAT directive precludes a tax such as the Italian "IRAP".

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OECD:

► **OECD countries welcome Chile's participation in the OECD's taxation work**

The OECD agreed to invite Chile to participate in the work of the Committee on Fiscal Affairs in recognition of the role that Chile has played in the area of tax policy and administration. Chile will have the status of Observer.

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► **The OECD Aims to Improve International Tax Disputes Mechanisms**

The OECD, in cooperation with the Business and Industry Advisory Committee to the OECD (BIAC) and with the support of the broader business community, held a public consultation in Tokyo to present its 2006 Public Discussion Draft and consult with business on specific proposals to improve the process for resolving international tax disputes. Attending the conference were senior tax executives from large multinational companies, international tax experts and academics, representatives from OECD Member governments and key participants from the OECD's groups dealing with this issue.

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► **Joint OECD/US Business Conference on OECD Initiatives in International Taxation: Looking Ahead**

This conference, organised jointly by the OECD, the US Council for International Business (USCIB), and the Business and Industry Advisory Committee (BIAC), in cooperation with the International Fiscal Association (IFA), the National Foreign Trade Council (NFTC), and the Organization for International Investment (OFII), will examine key international tax activities of the OECD. The conference will take place in Washington, DC on 5-6 June 2006.

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► **OECD invites comments on the application of transactional profit methods**

The OECD is issuing an open invitation to contribute on a number of issues in relation to transactional profit methods. As part of its procedures for monitoring the implementation of the 1995 Transfer Pricing Guidelines, Working Party No 6 of the OECD Committee on Fiscal Affairs has selected the application of transactional profit methods as one of two areas to be considered in priority.

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