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The Damages of Fiscal Competition in Europe

In the field of direct taxation, Europe today is pervaded by tax competition. The neo-liberal vision of how the Union should operate has ruled out any idea that the Union could take upon itself the management of fiscal matters, notwithstanding competition led to a significant losses in fiscal revenue. As a result, today, not only is there no European model for direct taxation, but there are not even mutually conforming codes on taxation and regulation. Even in terms of principles there is no uniformity.

No possible generalization among countries of any particular scheme leads to a stop of the race to the bottom in its specific field of impact (whatever such a scheme concerns: regulation, fiscal treatment of the holdings, tax rates, e-commerce, tax bases, type of controls, etc.) because that race is always resumed with a + 1.

After dwelling on some example of endless competition, this paper argues about the senseless distinction between "harmful" and "non-harmful" tax competition, and arrives at the conclusion that it there not something as virtuous or fair or beneficial tax competition.

In particular, the paper examines the competition to attract the headquarters of multinational corporation and deals with the limits of a piecemeal approach to taxing the digital economy. It discusses also the merits and limits of the recent agreement on the automatic exchange of information among fiscal authorities.

Lines of action that are desirable for the Union to pursue are indicated throughout the paper. The ultimate aim of these should be to recover revenue lost, compensating the weaker countries that had benefited from intra-Union competition, as well as starting a concrete process of substantially reducing the taxation of labor. Finally, it should also lead to the identification of sources of revenue that could significantly increase the Union's budget. Further, it would be no small matter if Europe overcame what are today the outdated assumptions that govern international agreements on transnational taxation and define a global standard for taxation that responds to the new realities of integrated capitalism. The European nation-states have not lost their power of taxation due to globalization but because of tax competition.