Tax harmonisation prospects alarm Maltese businesses

Commission reiterates benefits for all EU member states

Rebecca Anastasi

Business leaders in Malta are at odds with the European Commission’s push to reform tax legislation, despite what some in Malta see as the lack of clarity on the “exact effect and magnitude” such changes would imply.

Perit David Xuereb, President of the Malta Chamber of Commerce, Industry and Enterprise, reiterated the entity’s position in favour of Malta’s fundamental right to defend its taxation regime, stating that while it is a strong believer in the European project, it believes a “one-size-fits-all principle cannot be applied.”

“"The EU formula for the distribution of taxes among member states, derived from a multinational company’s global taxes, does not favour smaller markets.”

– Simon de Cesare, President, Malta Business Bureau (MBB)

Echoing the views already put forward by Malta’s MEPs, Perit Xuereb said that Malta’s fiscal policy was not "simply a way of collecting revenue" but a tool to attract investment, stimulate growth and overcome its disadvantages of smallness and peripherality. He underlined the need for Malta to be "more positive and decisive in arguing for our cause" when it comes fiscal policies, adding that the entity was prepared to "mobilise its expert members" in the face of growing international pressure.

Malta Business Bureau (MBB) President Simon de Cesare concurred, stating that Maltese business is against EU tax harmonisation "because this endorses fiscal competitiveness" for smaller and peripheral countries, and works against Malta’s interests. He expressed the belief that the Commission proposal removes flexibility, while restricting intra-EU competition and creates unnecessary challenges for the local tourism industry, according to the MHRA.

Continued on page 3
Substantial opposition to decision-making reform in the arena of EU taxation policy

Continued from page 1

ing a disadvantage when compet-
ing with non-EU tax regimes in the
global economy.

"The EU formula for the distri-
bution of taxes among member
states, derived from a multina-
tional company’s global taxes,
does not favour smaller mar-
kets," Mr de Cesare stated.

He said that Malta can expect
to lose out if tax systems are har-
monised across all member
states, since it would be less able
to "attract foreign companies to
set up a physical presence here."

Yet, in comments to this news-
paper, a European Commission
official highlighted the benefits of
a "pooled sovereignty" when meet-
ing the challenges of the global
capitalist system, in which multinationals
countries have taken advantage of the rules, to the
detriment of the European pocket.

"When certain business activities
threaten member state revenues, it is only logical that swift, decisive
and timely action be taken - to-
gether," the official underlined,
while noting that the Common
Consolidated Corporate Tax Base
(CCTB) meets two key objectives
of the Junker Commission, namely
fighting tax avoidance and
boosting jobs and growth.

"It would eliminate the mis-
matches and loopholes between
taxation systems, which com-
panies can currently exploit, while
easing the administrative burden
and cost on companies
operating in the EU. It would cre-
ate more transparency among each
member state’s tax system and
effective rates. This means
fairer tax competition – no hid-
den rules or rigorous schemes –
and a level-playing field for all
businesses in the Single Market," the
official said.

When confronted with the
concerns expressed by local
business entities, the Commis-
sion official emphasised that
the impact for small countries
"should be the same as for all
member states: a positive boost
for the economy, as a result of a
fairer, more business-friendly
and pro-growth system." A coor-
dinated system will also "create a
better business environment and
help to attract foreign invest-
ment," particularly for SMEs,
since they would be able to "ex-
and where previously they may
not have been able to, which is
crucial for growth." These bene-
fits would not "be limited to one
or two member states. They are
shared by all, objectively," the
Commission official stated.

However, details on exactly
how these aims would be achieved
were lacking. And, it is this
uncertainty which – perhaps
ironically – lies at the heart of
some optimism expressed by Paul
Giglio, Tax and Assurance Partner
at international audit and advis-
ory firm Mazars. "Whereas the
introduction of tax harmonisation
could be problematic to a country
like Malta, it is hard to determine
the exact effect and magnitude
that this would have on the Mal-
tese economy," he said.

Mr Giglio listed the island’s
regulatory system, its pool of pro-
fessionals who are able to
give a personalised service to
their clients; the euro currency;
eco-
nomic stability; as well as less
bureaucracy in the manner in
which business is established as
key selling points which would be
re-
tained even if the EU voted to im-
plement tax harmonisation rules.
He underlined the need for Malta
to continue "providing different
advantages and areas of speciali-
tation, not merely tax advan-
tages", saying that any changes
could be best countered by think-
ing "in terms of different prod-
ucts and ideas to sell, which are
not tax-driven."

These, in his view, should in-
clude "value-added services
which allow for remote global
working"; innovation hubs fo-
cused on developing cutting-edge
products; renewable energy sys-
tems and new international finan-
cial products. "If our authorities
start to give this direction now, it is
possible that Malta will again
re-invent itself even in the face of
this new challenge," he said.

Moreover, in order to be at
the forefront of any developments
- "managing change rather than
allowing it to manage us" - Mr Giglio
stressed the need to improve
the island’s reputation as a finan-
cial centre, in the wake of recent
criti-
cisms which have led to the Euro-
pean Parliament’s recent ruling
labelling Malta as having the char-
acteristics of a tax haven. This
could be achieved by strengthen-
ing regulators; eliminating false
advertising in the financial sector;
ensuring that businesses which set
up in Malta comply with tax sub-
stance standards and practicing
judiciousness when it comes to
client on-boarding.

Yet, despite the controversy
the contentious proposals on tax har-
monisation have created locally, it
may be some time before any
modifications to the current sys-
tem are implemented. While
some of the "steps to a fairer and
more tax efficient environment in
Europe" have already gone, many of
the sticking points have been in
discuss-
cussion since 2016. Indeed, in order to speed up the
process of decision-making in the
arena of taxation, the EU Commis-
sion this year launched a debate to
remove the current system of una-
 nimity – in which all member
states must agree to new laws before they
can be implemented – and replace
it with a scheme based on a quali-
fied majority. The changes, known
as the Passerelle Clause, would re-
quire 55 per cent of member states,
representing at least 65 per cent of
the EU population, to approve any
new legislation - a system which is
already employed for some deci-
sions in the Council. The Commis-
sion noted that the proposed
amendments "would usher in a
dynamic and revitalise deci-
sion-making in this area."

Yet, there has been substantial
opposition to these proposals,
particularly from small member
states, with the Institute of Inter-
national and European Affairs
(IIA), an Irish think tank on
European and International af-
fairs, underlining the challenges
the new clause faces. Locally, MBB
President Mr de Cesare has also
expressed concern, saying that "any compromise achieved
as a result of unanimous adop-
tion would surely reflect a much
fairer outcome catering for the
interests of all member states." He
also stressed the need to re-
tain the current balance of
power in matters of taxation,
pointing out that "unanimity has
not prevented the EU from mak-
ing important decisions in the
area of tax policy." This was also
echoed by Malta Chamber’s
Perit Xuereb, who stated that
"Europe must listen to small pe-
ripheral countries such as Malta
which by their geographical
characteristics remains vulnera-
ble irrespective of their current
economic well-being."

These views reflect some of
the issues noted by the IIEA in
their report, which stated that
"the likelihood of qualified ma-
jority voting being introduced
for any new policy area, particu-
larly an area that is so tradition-
ally tied to national sovereignty
such as foreign policy or taxa-
tion, is close to nil." This would
result in the process towards
tax harmonisation stretching out
for much longer, until all mem-
ber states are on board with
the changes.