

The EU Standard of Tax Good Governance and the EU List of non- cooperative jurisdictions

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Topics

**Standard of good
governance in tax matters**

Import/export

Legal status standard



1. Standard of good governance

- **2008: Transparency, exchange of information and fair tax competition**
 - 2012: Harmful tax and list of non-cooperative jurisdictions
 - 2016: Anti-tax avoidance package: Harmful tax, anti-Base Erosion and Profit Shifting (BEPS) measures and fair economic activity (tax rate/not artificial)
 - 2017: List of non-cooperative jurisdictions for tax purposes
- **2018: Transparency, exchange of information, fair taxation and BEPS 4 Minimum Standards**
- **2020 (July EU Comm. Nov. ECOFIN) Confirmation criteria above, emphasis on the “polluter pays principle. [COM \(2020\) 313](#)**

1. Standard of good governance

Another important way in which the EU promotes fairness in tax matters is through a tax good governance clause in relevant international agreements with third countries. The European Parliament considers the tax good governance clause to be one of the “core instruments of EU external policy” (TAXE 3 report, 26/03/2019) and has repeatedly called for it to be systematically included in any relevant EU agreements with third countries and regions.

In the 2016 External Strategy, the Commission suggested updating and strengthening the standard good governance clause, to align it with the latest international norms. Member States endorsed a new text in May 2018 and confirmed that such wording should be included in all relevant international agreements.

1. Standard of good governance

*The Commission has since tabled the **updated clause in all relevant new and ongoing negotiations, several of which are in the process of being successfully concluded.***

The Commission will continue to insist on the inclusion of the tax good governance clause in all relevant future negotiations on international agreements.

In the event that a third country refuses to accept the clause, or insists on changing it to the extent that it no longer serves the intended purpose, the Commission and Member States must consider the appropriate response. Such countries could be scrutinised under the EU listing exercise.

1. Standard of good governance

*The Commission in its dialogue with third countries will also put emphasis on the **'polluter pays principle'**, enshrined in the Treaty on the functioning of the European Union, which calls for pricing the negative externalities of polluting or other damaging activities. There is an under explored potential for **environmental taxes to contribute to more progressive and sustainable tax systems** and more equitable societies in developing countries.*

In many developing countries, increasing the amount of revenues raised through environmental taxation has also the potential to reduce state dependence on aid and debt financing, and to facilitate the mobilisation of domestic resources for public services. As environmental taxes are harder to evade than e.g. corporate or personal income taxes, they also have the potential to strengthen state accountability, improve tax morale and enhance fiscal governance.

2. Role EU

EU role in the formation of international law – proactive co-shaping of the international legal order alongside other actors
(*Kochenov and Amtenbrink, 2013*)

In taxation

- **Standard:** Improve international tax cooperation and facilitate the collection of legitimate tax revenues. To promote fair taxation: central to the EU's social and economic model and its sustainability.
- **EU as a major political and economic player internationally:** To support BEPS (smooth and timely implementation) in the single market and internationally

3. EU and standard of good governance in tax matters

Standard can be introduced in:

- For third (non-EU countries) strategic partnership agreement: Legally binding framework for cooperation
- For third (non-EU countries) a coordinated tax clause that should be included in free trade agreements that the EU concludes with third countries
- For third (non-EU countries) relevant agreements, without prejudice to their respective competences. Thus trade and strategic partnership but also other areas (aid, cooperation)

4. Import/Export EU standards

- Reasons: (i) authority; (ii) prestige and imposition; (iii) chance and necessity (iv) expected efficacy of law and (v) political, economical and reputational incentives (*Mosquera 2007*)

Examples

- Environmental and labour standards
- 1995 Data Protection Directive
- Sometimes standards are not developed by EU, but international standards (agreed, before entering into force, before binding form, only adopted by few countries) (*Scott 2014*)

Standard of good governance is an import or export of EU norms?

Legal status of the standards?

4. Import/Export EU standards

Import of norms: Transparency and exchange of information: International standards used developed by The G20-OECD and then, used by the EU in international agreements. After import, the standard is exported throughout the agreements. Also BEPS.

Export of norms: Fair tax Competition. Standard developed by the EU, and later on by the OECD

5. Legal status standards

Transparency and exchange of information

Binding

- Multilateral Convention on Mutual Administrative Assistance (more than 140 jurisdictions)
- MCAA CRS - Automatic Exchange of Information (more than 100 jurisdictions)

Consequences

- The international standards introduced in the agreement become binding standards.
- However, mismatches between the countries adopting the standards and countries required to implement the standards (if not yet adopted)

5. Legal status standards

4 BEPS Minimum Standards

Non- Binding

- Participants BEPS Inclusive Framework 141 tax jurisdictions

Consequences

- The international standards introduced in the agreement become binding standards.
- However, mismatches between the countries adopting the standards and countries required to implement the standards (if not yet adopted)

5. Legal status standards

Fair tax competition

- Fair tax competition, fair taxation, harmful tax regimes, state aid (selected tax competition)
- Unclear and vague standard with different meanings: fair, unfair, harmful. Applicable in a subjective way

Non- Binding

- 1997 Code of conduct (political agreement/ peer pressure between Member States). Now also applicable to third (non-EU) countries. Comm. July 2020 reform and modernization.

Consequences

- List of non-cooperative jurisdictions: Member States and Code of Conduct group. Applicable also to EU countries? Legitimacy issues?
- Selected tax competition results in indirect protectionism (*Dourado 2016*)

6. EU Standard in Agreements

➤ **EU- Canada 2016** Strategic Partnership Agreement

- **Title II** The EU and **Canada** commit to upholding democratic principles and human rights, to advancing democracy, including free and fair elections, and the importance of the rule of law for effective democratic governance.

Other agreements

EU- Japan April 2018 Strategic partnership agreement

- A legally binding pact covering not only political dialogue and policy cooperation, but also cooperation on regional and global challenges
- Also linked to Economic Partnership agreement (trade).

EU- Philippines 2018 Partnership and Cooperation Agreement. Linked to (under negotiation Trade Agreement)

EU-South Korea 2010 Framework Agreement

- Also signed trade and investment agreement and framework participation agreement

EU Standard in Agreements 2009: South Korea

Article 12 Taxation

- With a view to strengthening and developing economic activities while taking into account the need to develop an appropriate regulatory framework, the Parties recognise and commit themselves to implement in the tax area the principles of **transparency, exchange of information and fair tax competition**. To that effect, in accordance with their respective competences, the Parties will improve international cooperation in the tax area, facilitate the collection of legitimate tax revenues, and develop measures for the effective implementation of the above mentioned principles.

EU Standard in Agreements 2016: Canada

Article 11

Cooperation on Taxation

With a view to strengthening and developing their economic cooperation, the Parties adhere to and apply **the principles of good governance in the tax area, i.e., transparency, exchange of information and avoidance of harmful tax practices** in the frameworks of the OECD Forum on harmful tax practices and the Union Code of Conduct on business taxation, as applicable. The Parties shall endeavour to work together to promote and improve the implementation of these principles internationally.

EU Standard in Agreements 2018: Japan

Article 19

Taxation

With a view to promoting good governance in tax matters, the Parties shall endeavour to enhance cooperation in line with internationally established tax standards, in particular by encouraging third countries to enhance **transparency, ensure exchange of information and eliminate harmful tax practices.**

EU Standard in Agreements 2018: Philippines

Article 12

Good Governance in the Tax Area

- With a view to strengthening and developing economic activities while taking into account the need to develop an appropriate regulatory framework, the Parties recognise and will implement the principles of **good governance in the tax area**. To that effect, and in accordance with their respective competences, the Parties will improve international cooperation in the tax area, facilitate the collection of legitimate tax revenues, and develop measures for the effective implementation of the abovementioned principles.
- The Parties agree that the implementation of these principles takes place notably within the framework of existing or future bilateral tax agreements between the Philippines and Member States.

EU Standard in Agreements

EU- China 2020 Strategic Agenda for Cooperation

- Commit to reach an agreement on the adoption of the Global Standard on **Automatic Exchange of Information** being developed by the OECD together with G20 countries in the area of taxation.

EU- Colombia and Peru. 2010 Free Trade Agreement

Art. 155(5) Effective and Transparent regulation

- The Parties also take note of the "Ten Key Principles for Information Sharing" promulgated by the Finance Ministers of the G7 Nations and the Agreement **on Exchange of Information** on Tax Matters of the Organisation on Economic Cooperation and Development's (hereinafter referred to as "OECD") and the Statement on Transparency and exchange of information for tax purposes of the G20.

EU Standard in Agreements

EU- the United Kingdom Trade and Cooperation Agreement (31-12-2020)

Chapter five: Taxation

Article 5.1: Good governance

The Parties recognise and commit to implementing the principles of good governance in the area of taxation, in particular the global standards on tax transparency and exchange of information and fair tax competition. The Parties reiterate their support for the OECD Base Erosion and Profit Shifting (BEPS) Action Plan and affirm their commitment to implementing the OECD minimum standards against BEPS. The Parties will promote good governance in tax matters, improve international cooperation in the area of taxation and facilitate the collection of tax revenues.

EU Standard in Agreements

EU- the United Kingdom Trade and Cooperation Agreement

Chapter five: Taxation

Article 5.2: Taxation standards

1.A Party shall not weaken or reduce the level of protection provided for in its legislation at the end of the transition period below the level provided for by the standards and rules which have been agreed in the OECD at the end of the transition period, in relation to: (a) the exchange of information, whether upon request, spontaneously or automatically, concerning financial accounts, cross-border tax rulings, country-by-country reports between tax administrations, and potential cross-border tax planning arrangements; (b) rules on interest limitation, controlled foreign companies and hybrid mismatches.

2.A Party shall not weaken or reduce the level of protection provided for in its legislation at the end of the transition period in respect of public country-by-country reporting by credit institutions and investment firms, other than small and non-interconnected investment firms

See

EU Parliamentary Hearing 1 December 2020: Harmful Tx Competition: Single Market and Outside the EU. Organized by FISC Subcommittee in Tax Matters.

<https://www.europarl.europa.eu/committees/en/fisc/home/highlights>

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HEITMULLER F. and MOSQUERA I.J.[Special Economic Zones Facing the Challenges of International Taxation: BEPS Action 5, EU Code of Conduct, and the Future.](#) *Journal of International Economic Law* 2021, 00, 1–18

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