

Marjaana Helminen

EU

TAX LAW

Direct Taxation

2022 EDITION

IBFD

EU Tax Law - Direct Taxation 2022

Why this book?

This book is a handy reference tool for tax practitioners, judiciaries, tax administrations and university students alike. Its structure allows quick and easy access to essential information and facilitates a better understanding of the direct tax issues of EU tax law.

EU tax law substantially impacts the domestic tax laws of the EU Member States and the way in which those laws should be interpreted and applied. The effect of EU tax law on national legislation is becoming increasingly complex. Today, anyone working with or interested in tax law or tax planning is confronted with EU tax law issues.

The 2022 edition of EU Tax Law – Direct Taxation provides a clear picture of the EU law norms that are relevant from the perspective of direct taxes. It explains how these norms are, and should be, interpreted and how they affect national tax laws and the tax treatment in EU Member States. The book describes the legal remedies available against tax treatment that is in conflict with EU law.

The study begins with a comprehensive overview of the basic principles and concepts of EU tax law and relevant articles of the Treaty on the Functioning of the European Union, analysing them in the light of direct tax case law. A discussion follows covering relevant EU directives and recommendations and other soft law material on direct taxes. Reference is made to all relevant judgments of the EU Court on direct taxes. The book includes a chapter on the tax treatment of the different EU entity forms and the future of corporate taxation. A separate chapter is dedicated to the EU law issues related to transfer pricing and to the EU law norms on administrative cooperation in tax matters. An extensive bibliography is included that directs the reader to further material on the topic. Title: EU VAT Compass 2022/2023

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General Outline

Preface	xvii
Abbreviations and Terms	xix
Chapter 1: EU Tax Law as Part of the Legal System	1
1.1. Concepts	1
1.2. Relation to other legislation	3
1.3. Primary law	12
1.4. Secondary law	21
1.5. International conventions	28
1.6. Harmful tax competition and forbidden state aid	37
1.7. Elimination of international double taxation	48
1.8. Interpretation of EU law	58
Chapter 2: Non-Discrimination and Basic Freedoms	63
2.1. Discrimination based on nationality	63
2.2. Basic freedoms	72
2.3. Justifications for discrimination or restrictions	153
Chapter 3: Corporate Tax Directives	177
3.1. EU Parent-Subsidiary Directive	177
3.2. EU Interest-Royalty Directive	205
3.3. EU Merger Directive	233
3.4. Anti-Tax Avoidance Directive	272
Chapter 4: EU Company Forms and the Future of Corporate Taxation	303
4.1. Introduction	303
4.2. European Company and European Cooperative Society	304
4.3. European Economic Interest Grouping	316
4.4. Future of corporate taxation in the European Union	318
Chapter 5: Transfer Pricing	325
5.1. Relevance	325
5.2. Code of Conduct on transfer pricing documentation	327
5.3. Advance pricing agreements	336
5.4. Arbitration Convention	348

General Outline

Chapter 6: Mutual Assistance and Recovery of Tax Claims	377
6.1. Directive on Administrative Cooperation	377
6.2. Recovery Directive	419
Chapter 7: Legal Remedies	433
7.1. National legal remedies	433
7.2. Tax treaties	438
7.3. Dispute Resolution Mechanisms Directive	439
7.4. EU Court	463
7.5. Effects of EU Court judgments	472
References	479
Index	581

Table of Contents

Preface	xvii
Abbreviations and Terms	xix
Chapter 1: EU Tax Law as Part of the Legal System	1
1.1. Concepts	1
1.2. Relation to other legislation	3
1.2.1. Competences	3
1.2.2. Separateness and interaction	5
1.2.3. The primacy of EU law	6
1.2.4. Tax consequences	9
1.2.5. Direct effect and application	10
1.3. Primary law	12
1.3.1. The founding treaties and the accession treaties	12
1.3.2. Fundamental rights	14
1.3.3. Legal principles of EU law	15
1.4. Secondary law	21
1.4.1. Concept	21
1.4.2. Directives	22
1.4.2.1. Authorization to issue directives	22
1.4.2.2. Impact of the directives	23
1.4.2.3. Directives on direct taxes	25
1.4.3. Recommendations and other measures	26
1.5. International conventions	28
1.5.1. Connection to EU law	28
1.5.2. Tax treaties between EU Member States	28
1.5.2.1. Right to conclude tax treaties	28
1.5.2.2. Primacy of EU law	29
1.5.2.3. Most favoured nation	30
1.5.3. Tax treaties with third countries	32
1.5.3.1. Right to conclude tax treaties	32
1.5.3.2. Primacy of EU law	33
1.5.4. Other treaties with non-Member States	35
1.5.4.1. EEA Agreement	35
1.5.4.2. Other conventions	36

Table of Contents

1.6.	Harmful tax competition and forbidden state aid	37
1.6.1.	Harmful tax competition	37
1.6.1.1.	Concept	37
1.6.1.2.	Measures against harmful tax competition	37
1.6.1.3.	Prevention of tax evasion	38
1.6.2.	Prohibition of state aid	41
1.7.	Elimination of international double taxation	48
1.7.1.	Legal basis	48
1.7.2.	Tax treaties and directives	49
1.7.3.	Obligation to take into account taxes levied in another Member State	50
1.8.	Interpretation of EU law	58
1.8.1.	EU law method of interpretation	58
1.8.2.	EU law-consistent interpretation of domestic law	60
Chapter 2:	Non-Discrimination and Basic Freedoms	63
2.1.	Discrimination based on nationality	63
2.1.1.	General conditions for application	63
2.1.2.	Concept of discrimination	65
2.1.3.	Comparable situation or different situation	68
2.1.3.1.	Comparability analysis	68
2.1.3.2.	Different situation	69
2.1.3.3.	Comparable situation	70
2.1.3.4.	Resident companies of different states	71
2.2.	Basic freedoms	72
2.2.1.	General conditions for application	72
2.2.2.	Free movement of goods	80
2.2.2.1.	Applicable norms	80
2.2.2.2.	Relevance to direct taxation	81
2.2.3.	Free movement of EU citizens	81
2.2.4.	Free movement of workers	84
2.2.4.1.	General conditions for application	84
2.2.4.2.	Different tax treatment on the basis of residence	87
2.2.4.2.1.	Employment in several states	87
2.2.4.2.2.	Most income from employment state	88
2.2.4.2.3.	Small part of income from employment state	92
2.2.4.3.	Social security contributions	94

2.2.5.	Freedom of establishment	96
2.2.5.1.	Relevance and scope of application	96
2.2.5.2.	Undertakings in a comparable situation	103
2.2.5.2.1.	Permanent establishments	103
2.2.5.2.2.	No permanent establishment	107
2.2.5.3.	Dividend taxation systems	107
2.2.5.3.1.	Permanent establishment	107
2.2.5.3.2.	Foreign-source dividends	108
2.2.5.3.3.	Non-resident dividend recipient	112
2.2.5.4.	Thin capitalization and interest deduction limitations	116
2.2.5.5.	Group taxation systems	119
2.2.5.5.1.	Need for cross-border balancing of profits and losses	119
2.2.5.5.2.	Permanent establishments	121
2.2.5.5.3.	No permanent establishment	123
2.2.6.	Free movement of capital and payments	130
2.2.6.1.	Primary rule	130
2.2.6.2.	Exceptions	134
2.2.6.3.	Relations to non-Member States	135
2.2.6.4.	Right to capital in companies	140
2.2.7.	Freedom to provide services	140
2.2.7.1.	Scope of application	140
2.2.7.2.	Cases on direct taxes	143
2.2.8.	Overlapping scope of application	145
2.2.8.1.	Freedom of establishment or free movement of capital?	145
2.2.8.2.	Free movement of capital or services?	150
2.2.8.3.	Freedom of establishment/free movement of capital or free movement of workers?	151
2.2.8.4.	Free movement of capital or goods?	152
2.2.8.5.	Simultaneous application	152
2.3.	Justifications for discrimination or restrictions	153
2.3.1.	Rule of reason	153
2.3.2.	Effectiveness of fiscal supervision and the recovery of tax debt	156
2.3.3.	Anti-avoidance purpose	157
2.3.3.1.	Tax planning versus tax avoidance	157
2.3.3.2.	CFC regimes as an example	163
2.3.4.	Balanced allocation of taxing rights	166

Table of Contents

2.3.5.	Coherence of the national tax system	168
2.3.6.	Territoriality	172
2.3.7.	Need to prevent double use of losses	174
2.3.8.	Treatment in the other state	174
2.3.9.	Non-EU and non-EEA States	175
Chapter 3:	Corporate Tax Directives	177
3.1.	EU Parent-Subsidiary Directive	177
3.1.1.	Background	177
3.1.2.	Scope of application	178
3.1.2.1.	Profit distributions between subsidiary and parent companies residing in different Member States	178
3.1.2.2.	Profit distributions connected with a permanent establishment	180
3.1.2.3.	Company of a Member State	184
3.1.2.4.	Permanent establishment	187
3.1.2.5.	Parent and subsidiary company	188
3.1.2.6.	Profit distribution	190
3.1.2.7.	Other requirements	191
3.1.2.8.	EEA and other non-Member States	192
3.1.3.	Tax treatment	192
3.1.3.1.	Tax treatment in the dividend recipient's state	192
3.1.3.1.1.	Elimination of double taxation in the parent company state	192
3.1.3.1.2.	Exemption or credit in the parent company state or in the permanent establishment state	193
3.1.3.1.3.	Treatment of hybrid subsidiaries in the parent company state	197
3.1.3.1.4.	Treatment of subsidiary-related costs in the parent company state	198
3.1.3.2.	Tax treatment in the subsidiary state	199
3.1.3.2.1.	No withholding tax	199
3.1.3.2.2.	Withholding tax	200
3.1.4.	Tax avoidance situations	201

3.2.	EU Interest-Royalty Directive	205
3.2.1.	Background and force	205
3.2.2.	Tax treatment	206
3.2.2.1.	Tax consequences	206
3.2.2.2.	Administrative prerequisites	208
3.2.2.3.	Repayment of a tax levied in conflict with the directive	210
3.2.3.	Intra-EU cross-border payment	210
3.2.4.	Qualifying companies	217
3.2.4.1.	Company of a Member State	217
3.2.4.2.	Permanent establishment	221
3.2.4.3.	Associated companies	222
3.2.4.4.	Beneficial owner	225
3.2.5.	Source state	227
3.2.6.	The concepts of interest and royalty	229
3.2.6.1.	Interest	229
3.2.6.2.	Royalty	229
3.2.6.3.	Payments outside the scope of the directive	230
3.2.7.	Tax avoidance situations	231
3.3.	EU Merger Directive	233
3.3.1.	Background and force	233
3.3.1.1.	Force	233
3.3.1.2.	Relevance of the directive	234
3.3.2.	Scope of application	235
3.3.2.1.	Reorganizations covered	235
3.3.2.2.	Company from a Member State	237
3.3.2.3.	Merger	240
3.3.2.4.	Division	244
3.3.2.5.	Transfer of assets	247
3.3.2.6.	Exchange of shares	249
3.3.3.	Tax treatment of mergers, divisions and transfers of assets	252
3.3.3.1.	Applicable provisions	252
3.3.3.2.	Deferral of capital gains taxation	253
3.3.3.3.	Carry-over of provisions and reserves	256
3.3.3.4.	Takeover of losses	256
3.3.3.5.	Holdings of the receiving company in the transferring company	258

Table of Contents

3.3.3.6.	Tax exemption of the shareholders	258
	3.3.3.6.1. Situations covered	258
	3.3.3.6.2. Situations not covered by the tax exemption	260
3.3.3.7.	Transfer of a permanent establishment	262
3.3.4.	Transfer of registered office of a European Company or European Cooperative Society	264
	3.3.4.1. Background and relevance	264
	3.3.4.2. Transfer of registered office	264
	3.3.4.3. Tax consequences	265
3.3.5.	Tax avoidance	267
	3.3.5.1. Artificial tax avoidance arrangements	267
	3.3.5.2. Other situations	271
3.3.6.	Employee representation	272
3.4.	Anti-Tax Avoidance Directive	272
	3.4.1. Background, relevance and implementation	272
	3.4.2. Personal scope of the directive	274
	3.4.3. Interest deduction limitation rule	274
	3.4.3.1. Different limitations on interest deductions	274
	3.4.3.2. EBITDA-based fixed ratio rule	275
	3.4.3.3. Voluntary <i>de minimis</i> rule	277
	3.4.3.4. Voluntary exclusions	277
	3.4.3.5. Voluntary group ratio rule	279
	3.4.3.6. Voluntary carry-forward and carry-back	280
3.4.4.	Exit taxation provision	281
	3.4.4.1. Exit taxation	281
	3.4.4.2. Transfers covered	282
	3.4.4.3. Exclusion of temporal transfers	283
	3.4.4.4. Deferral of payment	283
	3.4.4.5. Tax value in the receiving country	285
	3.4.4.6. Estonia	285
3.4.5.	General anti-abuse rule	286
3.4.6.	Controlled foreign company rule	288
	3.4.6.1. Functioning and structure of the rule	288
	3.4.6.2. Entities treated as CFCs	288
	3.4.6.3. The CFC tax base	290
	3.4.6.4. Computation of the CFC income	292
3.4.7.	Hybrid mismatch rule	294

Chapter 4: EU Company Forms and the Future of Corporate Taxation	303
4.1. Introduction	303
4.2. European Company and European Cooperative Society	304
4.2.1. Formation	304
4.2.1.1. Company law	304
4.2.1.2. Tax treatment	306
4.2.2. Tax treatment of a European Company or a European Cooperative Society	311
4.2.2.1. Relevance of the SE Regulation and the SCE Regulation	311
4.2.2.2. National tax laws	312
4.2.2.3. Tax treaties	313
4.2.2.4. Founding treaties and directives	315
4.2.2.5. Tax-related problems	316
4.3. European Economic Interest Grouping	316
4.3.1. Company law	316
4.3.2. Tax treatment	317
4.4. Future of corporate taxation in the European Union	318
4.4.1. Need for development	318
4.4.2. From CCCTB to BEFIT	318
4.4.3. Other proposals	320
4.4.4. Alternatives	321
4.4.5. Significant digital presence and digital services tax	322
 Chapter 5: Transfer Pricing	 325
5.1. Relevance	325
5.2. Code of Conduct on transfer pricing documentation	327
5.2.1. Background and purpose	327
5.2.2. General principles	329
5.2.2.1. Rights and obligations of enterprises	329
5.2.2.2. Rights and obligations of Member States	331
5.2.3. Content of documentation	332
5.2.3.1. General principles	332
5.2.3.2. Master file	334
5.2.3.3. Country-specific documentation	335
5.3. Advance pricing agreements	336
5.3.1. Background and purpose	336
5.3.2. Binding effect	337
5.3.3. Prerequisites for an advance pricing agreement	339
5.3.4. Conduct of the advance pricing agreement process	340

Table of Contents

	5.3.4.1.	Preliminary negotiations and informal application	340
	5.3.4.2.	Formal application	341
	5.3.4.3.	Evaluation and negotiations	344
	5.3.4.4.	Formal advance pricing agreement	346
5.4.		Arbitration Convention	348
	5.4.1.	Relevance, force and interpretation	348
		5.4.1.1. Relevance	348
		5.4.1.2. Force	349
		5.4.1.3. Interpretation	350
	5.4.2.	Scope of application	352
		5.4.2.1. Elimination of double taxation	352
		5.4.2.2. Double taxation caused by a transfer pricing adjustment	352
		5.4.2.3. Enterprise of a contracting state	353
		5.4.2.4. Serious penalty	355
		5.4.2.5. Taxes covered by the Arbitration Convention	355
		5.4.2.6. Competent authority	356
		5.4.2.7. Territorial scope of application	356
	5.4.3.	Arm's length principle and transfer pricing adjustment	356
	5.4.4.	Notification of a transfer pricing adjustment	358
	5.4.5.	Mutual agreement procedure	359
		5.4.5.1. Institution of proceedings	359
		5.4.5.2. Notifications and information request	360
		5.4.5.3. Starting the negotiations	361
		5.4.5.4. Negotiations	363
		5.4.5.5. Agreement and implementation	365
	5.4.6.	Arbitration procedure	365
		5.4.6.1. Starting the procedure	365
		5.4.6.2. Advisory commission	367
		5.4.6.3. Rights and obligations within the arbitration procedure	370
		5.4.6.4. Opinion of the advisory commission	371
		5.4.6.5. Costs	373
	5.4.7.	Correction of tax assessment	374
		5.4.7.1. Abolition of international double taxation	374
		5.4.7.2. Suspension of tax collection	375

Chapter 6: Mutual Assistance and Recovery of Tax Claims	377
6.1. Directive on Administrative Cooperation	377
6.1.1. Background and relevance	377
6.1.2. Scope of application	381
6.1.3. Types of information exchange	383
6.1.3.1. Automatic exchange of information	383
6.1.3.2. Automatic exchange of information on reportable cross-border arrangements	389
6.1.3.2.1. Introduction	389
6.1.3.2.2. Reportable cross-border arrangements	390
6.1.3.2.3. Reporting obligation	396
6.1.3.2.4. Automatic exchange of information	400
6.1.3.2.5. Penalties	402
6.1.3.3. Exchange on request	402
6.1.3.4. Spontaneous exchange of information	406
6.1.3.5. The exchanging authority	407
6.1.4. Limits for exchange of information	408
6.1.5. Disclosure of information	411
6.1.6. Presence in the requested state	413
6.1.7. Notification of tax decisions	413
6.1.8. Simultaneous controls	415
6.1.9. Joint audits	416
6.1.10. Consultations	418
6.2. Recovery Directive	419
6.2.1. The norms and scope of application	419
6.2.1.1. Norms	419
6.2.1.2. Taxes on income and capital	420
6.2.2. Competent authorities	420
6.2.3. Types of assistance	421
6.2.3.1. Exchange of information	421
6.2.3.2. Notification of documents	422
6.2.3.3. Recovery	423
6.2.3.4. Precautionary measures	427
6.2.4. Limits to the obligation to assist	428
6.2.5. Periods of limitation	429
6.2.6. Use of languages	430
6.2.7. Disclosure of information and documents	431
6.2.8. Costs linked to recovery	432

Table of Contents

Chapter 7: Legal Remedies	433
7.1. National legal remedies	433
7.2. Tax treaties	438
7.2.1. Mutual agreement procedure	438
7.2.2. Arbitration Convention	439
7.3. Dispute Resolution Mechanisms Directive	439
7.3.1. Objective and scope	439
7.3.2. Interpretation	441
7.3.3. Complaint	442
7.3.4. Mutual agreement procedure	446
7.3.5. Dispute resolution by the advisory commission	447
7.3.6. The alternative dispute resolution commission	453
7.3.7. Procedural rules	454
7.3.8. The opinion and the final decision on the dispute	457
7.3.9. Interaction with national proceedings	460
7.3.10. Special provisions for individuals and smaller undertakings	462
7.4. EU Court	463
7.4.1. Tasks of the EU Court	463
7.4.2. Preliminary rulings	465
7.4.3. Actions	469
7.4.3.1. Actions against a Member State	469
7.4.3.2. Infringement procedure	469
7.4.3.3. Actions of Member States	471
7.4.4. Costs	471
7.5. Effects of EU Court judgments	472
7.5.1. Repayment of taxes paid in conflict with EU law	472
7.5.2. Liability for damages	474
7.5.3. Consequences of the failure to comply with an EU Court judgment	476
References	479
Bibliography	479
EU Court cases (listed chronologically)	550
European Court of Human Rights	565
EFTA Court	566
EU Court cases (listed alphabetically)	566
Index	581

Preface

I got hooked by EU tax law in the early 1990s when I was writing my doctoral thesis. I have had a great passion for teaching and researching EU tax law ever since. Today, no one who is interested in, or working with, tax law or tax planning can avoid dealing with EU tax law issues. EU tax law has a huge impact on the domestic tax laws of the EU Member States and on the way in which the domestic tax laws and tax treaties of the Member States must be interpreted and applied.

There is a substantial body of literature on the different EU tax law issues. However, in my professional endeavours, I missed having a clear and comprehensive work on EU tax law available. There was a need for a reader-friendly, complete presentation of the direct tax law issues of EU tax law. As a professor of international tax law, I felt that it was my duty to remedy this defect. As a consequence, the first edition of this book was published in 2009. The book has been written keeping in mind the needs of practitioners, judiciary, tax administrations, scholars and university students. It provides a complete, in-depth yet easily manageable presentation of the direct tax law issues of EU law. The layout, headlining, figures, tables, bibliography and index are designed to allow fast and easy access to the information needed and to facilitate understanding and learning.

EU tax law develops rapidly, especially because of the growing number of judgments from the EU Court on direct tax matters. Therefore, regular updates of the book are necessary. The most recent judgments have clarified many remaining, unclear issues concerning the impact of EU law on direct taxation. This 2022 edition takes into account all judgments of the EU Court on direct tax matters issued by 8 June 2022. These include, for example, *Viva Telecom Bulgaria* (C-257/20) clarifying the concepts of interest and dividend of the Interest-Royalty Directive and the Parent-Subsidiary Directive in regard to notional interest payments, *A SCPI* (C-342/20) concerning the comparability of collective investment undertakings constituted under statute or in accordance with contract law and *BJ* (C-241/20) dealing with the free movement of workers and the relevance of the fact that an employee does not have substantial income in its state of residence.

Proposals for substantial new legislation concerning corporate tax law were issued in late 2021 and early 2022. These include the Proposal for a Council Directive laying down rules to prevent the misuse of shell entities for tax purposes and amending Directive 2011/16/EU, COM(2021) 565 final,

Preface

22 December 2021, the Proposal for a Council Directive on laying down rules on a debt-equity bias reduction allowance and on limiting the deductibility of interest for corporate income tax purposes, COM (2022) 216 final 2022/0154 (CNS), 11 May 2022 and the Proposal for a Council Directive on ensuring a global minimum level of taxation for multinational groups in the Union, COM (2021) 823 final, 22 December 2021. Additionally, Directive (EU) 2021/2101 of the European Parliament and of the Council of 24 November 2021 amending Directive 2013/34/EU as regards disclosure of income tax information by certain undertakings and branches was adopted.

Turku, 8 June 2022

Marjaana Helminen

Chapter 1

EU Tax Law as Part of the Legal System

1.1. Concepts

European Union

The European Union (EU) is the consequence of the European integration development that started in the 1950s after the Second World War.¹ The European Union in its present form was created by the Treaty on European Union (TEU), i.e. the Treaty of Maastricht, signed in 1992 and entered into force in 1993.²

The European Union originally consisted of three pillars or sectors of cooperation. These were (1) the European Communities, (2) common foreign and security policy, and, (3) police cooperation and judicial cooperation in criminal matters.

The most relevant cooperation from the perspective of tax law has been the cooperation based on the European Communities. The European Communities were formed by the European Coal and Steel Community (ECSC), established by the Treaty of Paris signed in 1951, the European (Economic) Community (EEC), and the European Atomic Energy Community (Euratom) established by the Treaty of Rome signed in 1957. By the Lisbon Treaty, which entered into force on 1 December 2009, the European Communities were replaced and succeeded by the European Union.³

TFEU

The Treaty on the Functioning of the European Union (TFEU; originally the EC Treaty) has the most relevance with respect to taxation. The TFEU is based on the Treaty establishing the European Economic Community signed in 1957 in Rome, as replaced by the Treaty of Maastricht signed in 1992 and amended by the Treaty of Amsterdam signed in 1997, the Treaty

1. See e.g. Craig & de Búrca 2011, pp. 1-30.

2. The Treaty on European Union has been amended by the Treaty of Amsterdam, signed in 1997 and entered into force in 1999, the Treaty of Nice, signed in 2001 and entered into force in 2003 and the Treaty of Lisbon, signed on 13 December 2007 and entered into force on 1 December 2009. The abbreviation “TEU” is used in this book to refer to the Treaty on European Union in the form as amended by the Treaty of Lisbon.

3. See art. 1(3) TEU.

of Nice signed in 2001 and the Treaty of Lisbon signed in 2007. The TFEU entered into force on 1 December 2009.

EU tax law

EU law consists of the founding treaties (the TEU and the TFEU) and the legal provisions based on the legislative powers delegated to the European Union by the founding treaties. The part of the EU law provisions that may have an effect on taxes is referred to as EU tax law. After the entry into force of the Lisbon Treaty, the European Convention on Human Rights also became a part of EU law.⁴

Territorial scope

EU tax law provisions limit the sovereign taxing rights of the EU Member States in the area of direct taxation chiefly in situations in which the tax object or the tax subject has a connection to two or more Member States. However, for example, the free movement of capital principle of article 63 of the TFEU is relevant also in situations in which the other state is a non-Member State.

Besides certain exceptions, EU law provisions are relevant in relation to the whole territory of the European Union.⁵ The territorial scope of application of the EU law provisions in relation to each Member State depends on each state's own accession agreement. Article 355 defines how the founding treaties apply to certain associated and dependent territories of the EU Member States.⁶

Literature

There is substantial literature on EU tax law published in different languages of the Member States. The most comprehensive work in English is Terra and

4. Art. 6(2) TEU and the Protocol to the Treaty of Lisbon on Article 6(2) of the Treaty on the European Union, on the accession to the European Convention on Human Rights and basic freedoms. See e.g. the judgment of the European Court of Human Rights in cases *Jussila v. Finland* (73053/01), *Hentrich v. France* (13616/88), *Burden and Burden v. United Kingdom* (13378/05), *Jokela v. Finland* (28856/95) and e.g. Kofler, Maduro & Pistone 2011, Greggi 2007, pp. 610-615, Baker 2007, pp. 587-588, Baker 2008, pp. 315-316, Baker 2008a, pp. 643-646, Baker 2010, pp. 259-261, Baker 2012, pp. 584-586 and Craig & de Búrca 2011, pp. 362-406 about questions concerning human rights and taxes in the European Union.

5. See art. 52 TEU and arts. 349 and 355 TFEU.

6. About the EU law provisions that apply to different territories, see also e.g. Pancham, Fibbe & Ruiters 2007, pp. 164-175 and Smit 2011, pp. 40-61 and about the territorial scope of EU law, see Kavelaars 2007, pp. 268-273.

Wattel's *European Tax Law* (2019). Certain international tax periodicals, such as *EC Tax Review* published by Kluwer, *European Taxation* published by IBFD and *EC Tax Journal* published by Key Haven Publications, specialize in issues concerning EU tax law.

1.2. Relation to other legislation

1.2.1. Competences

Sovereignty

Despite the European Union and the Commission (the executive branch of the European Union), the Member States have broad sovereignty in the area of direct taxation.⁷ The organs of the European Union do not have their own taxing powers with regard to direct taxes.⁸ However, both the European Union and the Member States can make decisions concerning tax legislation.

Each Member State executes its own taxing powers by domestic tax laws. Each Member State decides which are the criteria that determine the scope of direct taxation in the state concerned. The Member States may, for example, choose to apply the territoriality principle for the purposes of income taxation and to tax non-residents only on the income from sources in the country concerned.⁹ The Member States, however, must exercise their taxing powers consistently with their obligations under the founding treaties and the legislative provisions given on the basis of such treaties.¹⁰

7. See arts. 3-6 TFEU and art. 5 TEU for the competence of the European Union. See also e.g. Bizzioli 2008, pp. 133-140 and Isenbaert 2009, pp. 264-278.

8. See, however, art. 12 Protocol on the privileges and immunities of the European Union, [2016] OJ C 202/266, according to which officials and servants of the European Union are liable to a tax for the benefit of the European Union on salaries, wages and emoluments paid to them by the European Union. The income that falls under the Protocol must not even indirectly have an impact on the amount of national taxes. For interpretation of the Protocol, see *Humblet* (6/60), *Bourges-Maunoury and Heintz* (C-558/10), *Gistö* (C-270/10) and *Pazdziej* (C-349/14). See also Helminen 2010a, pp. 541-544, KHO 2010/1295 and KHO 2011/3121 (88). See Kofler (2019), ch. 23 for the EU taxation system of its staff.

9. See e.g. *Schumacker* (C-279/93), *Royal Bank of Scotland* (C-311/97), *Futura* (C-250/95) and *Marks & Spencer* (C-446/03), para. 39.

10. See *Commission v. France (avoir fiscal)* (270/83), para. 24, *Schumacker* (C-279/93), para. 21, *Wielockx* (C-80/94), para. 16, *Asscher* (C-107/94), para. 36, *Futura* (C-250/95), para. 19, *Safir* (C-118/96), para. 21, *ICI* (C-264/96), para. 19, *Royal Bank of Scotland* (C-311/97), para. 19, *Gschwind* (C-391/97), para. 20, *Eurowings* (C-294/97), para. 32, *Vestergaard* (C-55/98), para. 15, *Baars* (C-251/98), para. 17, *Verkooijen* (C-35/98), para. 32,

Principle of conferral

In accordance with articles 4 and 5 of the TEU, the European Union shall act only within the limits of the competences conferred upon it by the Member States in the founding treaties to attain the objectives set out therein. All other competences belong to the Member States. This scope of competence is in accordance with the legality principle and the principle of legal certainty.

The founding treaties do not expressly confer competence to the European Union regarding direct taxes. The general competence of the European Union based on the founding treaties, however, is broad. In accordance with article 352 of the TFEU, the Council can take any action that is necessary for the attainment of the EU objectives in the functioning of the common market. This general competence does not exclude taxation.

Division of competence

Strictly interpreted, the lack of express EU competence means that direct taxation falls within the competence of the Member States. However, because of the general competence of the European Union, the Union also has a certain competence. In this regard, direct taxation falls under the scope of divided or shared competence.¹¹ The competence of the European Union, however, is fairly limited. Positive harmonization of direct taxation in the Member States is possible, provided that it affects the realization of the internal market that the harmonization actions are made unanimously and that the subsidiarity principle is followed.¹²

Subsidiarity

In accordance with the subsidiarity principle stipulated in article 5 of the TEU, in areas that do not fall within its exclusive competence, the European Union shall act only if and in so far as the objectives of the proposed action cannot

AMID (C-141/99), para. 19, joined cases *Metallgesellschaft* (C-397/98 and C-410/98), para. 37, *Danner* (C-136/00), para. 28, *X and Y* (C-436/00), para. 32, *Lankhorst-Hohorst* (C-324/00), para. 26, *De Groot* (C-385/00), para. 75, *Skandia and Ramstedt* (C-422/01), para. 25, *Lindman* (C-42/02), para. 18, *Commission v. France* (fixed levy) (C-334/02), para. 21, *de Lasteyrie du Saillant* (C-9/02), para. 44, *Turpeinen* (C-520/04), para. 11, *Schempp* (C-403/03), *Manninen* (C-319/02), para. 19, *Oy AA* (C-231/05), para. 16, *Meilicke* (C-292/04), *Marks & Spencer* (C-446/03), para. 29, *Cadbury Schweppes* (C-196/04), para. 40 and *Test Claimants in Class IV of the ACT Group Litigation* (C-374/04), para. 36. See also e.g. Weber 2006, pp. 585-616.

11. See also art. 2(2) TFEU and the Protocol of the Treaty of Lisbon on the exercising of shared competence.

12. See also Pistone 2002, p. 68, and an in-depth analysis on the competence of the European Union in the area of direct taxation in Köfler 2020, pp. 11-50.

be sufficiently achieved by the Member States but can rather, by reason of the scale or effects of the proposed action, be better achieved at EU level.¹³

EU tax law provisions direct the domestic tax laws of the Member States only to the extent that it is necessary for the realization and the functioning of the internal market.¹⁴ The purpose of the founding treaties is not to totally harmonize the tax laws of the Member States.

Proportionality

In accordance with the proportionality principle stipulated in article 5 of the TEU, the actions of the European Union must not go beyond what is necessary for the attainment of the objectives of the founding treaties. The measures used and the objectives pursued must be in the right proportion to each other.¹⁵

The measures taken must be appropriate for the attainment of the objective, must be necessary because a less restrictive measure is not available and must be sufficient for the attainment of the objective.¹⁶

Flexibility

Even though EU-wide harmonization of direct taxes requires unanimous decision-making by the Member States, certain Member States may enter into tighter cooperation in accordance with the flexibility principle. This alternative includes differentiated or flexible integration; for example, by means of bilateral tax treaties that are in accordance with EU law.

1.2.2. Separateness and interaction

Legal systems of tax law

Each EU Member State has its own national tax system. EU tax law, the tax treaties concluded by each Member State and the national tax laws of

13. The institutions of the European Union apply the principle of subsidiarity as laid down in the Protocol of the Lisbon Treaty on the application of the principles of subsidiarity and proportionality. National parliaments ensure compliance with the principle of subsidiarity in accordance with the procedure set out in that Protocol.

14. Arts. 3-6 TFEU and art. 5 TEU.

15. See e.g. *Fromançais* (66/82) and *Fédéchar* (8/55).

16. The institutions of the European Union must apply the principle of proportionality as laid down in the Protocol to the Lisbon Treaty on the application of the principles of subsidiarity and proportionality. See e.g. Freyer 2017, pp. 384-392 about the proportionality principle under EU law.

each Member State are parts of the national tax laws of the Member States. In accordance with the principle of autonomy, EU tax law, tax treaties and national tax law of each Member State are separate legal systems belonging to the national legal system of the Member State concerned. These different parts of tax law, however, are in a strong interaction with each other. For example, EU law has a substantial impact on the national tax laws of the Member States.

No EU tax

At present, the EU does not use direct taxes for its own recourse collecting purposes. There is no general EU-level income tax¹⁷ and the income taxes levied in the Member States are based on the national tax provisions of each Member State's own domestic legislation. The tax revenue from the income taxes levied by the Member States goes directly to the Member State concerned or to a local authority thereof. The European Union does not benefit directly from the tax revenue.¹⁸

Conflicts

EU tax law, the national tax laws of the Member States and the tax treaties concluded by the Member States each has a language, concepts and provisions of its own. The provisions of EU tax law, the national tax laws and the tax treaties may therefore conflict with each other. The relationship and the primacy order among the different segments of tax law must be determined in order to determine the tax consequences in a cross-border situation.

1.2.3. The primacy of EU law

Founding treaties

Unlike indirect taxes, the TEU and TFEU (the founding treaties) do not mention direct taxes. The only express reference to direct taxes was included

17. See, however, art. 12 Protocol on the privileges and immunities of the European Union, [2016] OJ C 202/266, according to which officials and servants of the European Union are liable to a tax for the benefit of the European Union on salaries, wages and emoluments paid to them by the European Union. The income that falls under the Protocol must not even indirectly have an impact on the amount of national taxes. For interpretation of the Protocol, see *Humblet* (6/60), *Bourges-Maunoury and Heintz* (C-558/10), *Gistö* (C-270/10) and *Pazdziej* (C-349/14). See also Helminen 2010a, pp. 541-544, KHO 2010/1295 and KHO 2011/3121 (88). See Kofler (2019), ch. 23 for the EU taxation system of its staff.

18. About the need and the possibilities for an EU tax, see e.g. Plasschaert 2004, pp. 470-479 and Viherkenttä & Scherleitner 2022, pp. 293-302.

in article 293 of the EC Treaty concerning the right of the Member States to conclude tax treaties in order to avoid double taxation. Such an express reference is no longer included in the TEU or the TFEU in the form as amended by the Lisbon Treaty. Both the TEU and the TFEU, however, apply to direct taxes despite the lack of an express reference.¹⁹

Case law

No express provision exists concerning the interrelationship between EU law and the national laws of the Member States. Based on the judgments given by the Court of the European Union (the EU Court),²⁰ however, it is clear that EU law takes precedence over national laws. The primacy of EU law applies both in relation to the founding treaties and the EU directives. Even though direct taxation falls under the purview of the Member States, the states must follow the EU law rules and principles when exercising this power.²¹

EU law norms override national law provisions that are in conflict with EU law, regardless of the status or the age of the national law provision. EU law norms take precedence also in the case of a conflict between an EU law provision and a national constitutional provision.²² Because of the primacy of EU law, the Member States must not enact legislation or conclude tax treaties, nor apply existing legislation or tax treaties in conflict with EU law. Domestic laws and tax treaties of the Member States must be applied and interpreted in accordance with EU law.

19. See also Kemmeren 2008b, pp. 156-158.

20. E.g. *Filipiak* (C-314/08), paras. 81-85, *Simmenthal* (106/77) and *Costa v. ENEL* (6/64).

21. See *Avoir fiscal* (270/83), para. 24, *Schumacker* (C-279/93), para. 21, *Wielockx* (C-80/94), para. 16, *Asscher* (C-107/94), para. 36, *Futura* (C-250/95), para. 19, *Safir* (C-118/96), para. 21, *ICI* (C-264/96), para. 19, *Royal Bank of Scotland* (C-311/97), para. 19, *Gschwind* (C-391/97), para. 20, *Eurowings* (C-294/97), para. 32, *Vestergaard* (C-55/98), para. 15, *Baars* (C-251/98), para. 17, *Verkooijen* (C-35/98), para. 32, *AMID* (C-141/99), para. 19, joined cases *Metallgesellschaft* (C-397/98 and C-410/98), para. 37, *Danner* (C-136/00), para. 28, *X and Y* (C-436/00), para. 32, *Lankhorst-Hohorst* (C-324/00), para. 26, *De Groot* (C-385/00), para. 75, *Skandia and Ramstedt* (C-422/01), para. 25, *Lindman* (C-42/02), para. 18, *Commission v. France* (fixed levy) (C-334/02), para. 21, *de Lasteyrie du Saillant* (C-9/02), para. 44, *Turpeinen* (C-520/04), para. 11, *Schempp* (C-403/03), *Manninen* (C-319/02), para. 19, *Oy AA* (C-231/05), para. 16, *Meilicke* (C-292/04), *Marks & Spencer* (C-446/03), para. 29, *Cadbury Schweppes* (C-196/04), para. 40 and *Test Claimants in Class IV of the ACT Group Litigation* (C-374/04), para. 36.

22. See e.g. *Filipiak* (C-314/08), paras. 81-85. See also e.g. Szudoczky 2020, pp. 93-118 about the relationship between EU law and national law.

Conflict must be abolished

The domestic laws and tax treaties of the Member States may include provisions that are in conflict with EU law. Once the conflict has been discovered, these provisions must be amended or abolished in order to comply with EU law. For reasons of legal certainty, the conflicting provisions must be amended or abolished even though the tax authorities of the state concerned would not apply them in practice.²³

Loyalty

In accordance with the loyalty principle (or principle of sincere cooperation) stipulated in article 4 of the TEU, the Member States must take all necessary measures in order to comply with their EU law obligations (positive Union loyalty). The Member States must also refrain from any measures that endanger the realization of the objectives of the European Union (negative Union loyalty).²⁴ The loyalty obligation also binds, in addition to the legislator, the tax authorities and the courts of the Member States.²⁵

Effectiveness

Effectiveness or the *effet utile* principle has a close connection to the loyalty principle. The Member States must provide for the effective realization of EU law in their legislation, administration and jurisdiction. The Member States must provide for effective legal remedies for the purposes of the realization of the rights based on EU law before the tax authorities and the courts. They must give full force and effect to EU law as interpreted in the decisions of the EU Court.²⁶

Assimilation or equivalence

The assimilation, or equivalence, principle obliges the Member States to use as efficient measures for the execution of their EU law obligations as they do for the execution of national provisions.²⁷ It must not be more complicated to appeal to EU law than it is to appeal to national laws.

23. See e.g. *Commission v. Italy* (C-358/98), paras. 16 and 17, *Commission v. France* (C-160/99), para. 22 and *Commission v. Belgium* (C-522/04), para. 70.

24. See e.g. *Simmenthal* (106/77), paras. 16 and 21 and *Factortame* (C-213/89), para. 19.

25. See also e.g. van Thiel 2009, pp. 292-299 and Wittock 2014, pp. 171-188 about the loyalty principle in tax matters.

26. *Simmenthal* (106/77), *Heylens* (222/86), *Borelli* (C-97/91), *Kühne and Heitz* (C-453/00), *Kapferer* (C-234/04) and *Pelati d.o.o.* (C-603/10), paras. 23 and 24. See also e.g. van Thiel 2009, pp. 299-301 about the effectiveness principle.

27. See e.g. *Kapferer* (C-234/04), *Meilicke* (C-262/09) and *Pelati d.o.o.* (C-603/10), para. 23. See also e.g. van Thiel 2009, pp. 301-305.

Primacy and direct effect

The primacy and direct application of the EU law provisions by the domestic authorities and courts have a close connection to the efficiency and the loyalty principles.²⁸ The EU law provisions and principles must be applied ex officio, even if the taxpayer would not refer to them.²⁹

1.2.4. Tax consequences

More lenient tax treatment

The main purpose of the EU tax law norms is to abolish tax obstacles within the internal market. Therefore, in relation to direct taxes, the precedence of EU law has traditionally meant that EU law takes precedence over the domestic law or tax treaty provisions when EU law leads to more lenient tax consequences for the taxpayer.

The domestic law or tax treaty norms on direct taxation that mean more lenient tax consequences to the taxpayer than EU law requires have traditionally not been in conflict with EU law. EU tax law, for example, does not require a minimum corporate tax, i.e. that national corporate taxes exceed a certain level.³⁰ Except for certain exceptions, the Member States have the right to choose not to levy certain direct taxes, provided that the tax treatment does not amount to selective state aid forbidden by the TFEU.³¹

Taxing obligation

Despite the primary purpose of the EU founding treaties to abolish obstacles within the internal market, the principle of the most lenient provision is not without exception. The number of such EU tax law provisions that require taxation irrespective of a possibly more lenient domestic law or tax treaty provision have increased. The legitimacy of such EU tax law provisions may be based, for example, on the assumption that tax avoidance is harmless to the proper functioning of the internal market.

28. *Costa v. ENEL* (6/64) and *Van Gend & Loos* (26/62).

29. *Van Schijndel* (C-431/93).

30. Unlike in the case of direct taxes, the principle of the most lenient provision cannot be followed in the case of indirect taxes that are subject to broader harmonization than direct taxes.

31. About state aid, see sec. 1.6.2.; for the limits of non-taxation, see e.g. Sullivan 2009, pp. 189-198.

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