

On Tax Harmonization, Fairness and Beyond – Perspectives of a Member of the European Parliament

Interview with Bruno Gonçalves, MEP

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This note presents a written interview with Bruno Gonçalves (BG), Member of the Subcommittee on Tax Matters (FISC subcommittee) of the European Parliament, conducted by the EU Tax Law Study Group (EUTLSG).

Among other things, Mr Gonçalves offers his views on the tax priorities for the European Parliament's legislature, offers his tax wish list for the Commission, defends the idea that a reform of the treaties could be used to enhance the Parliament's role and bring about a transition to qualified majority voting in the Council and explains why Unshell should be agreed upon.

EUTLSG: *Currently, EU legislative procedures on taxation issues follow a special legislative procedure, in which the European Parliament has a merely consultive role. This special procedure also makes it very difficult to achieve higher harmonization levels, as the Council must agree unanimously on the tax initiatives. In the past legislature, the European Parliament has been very vocal on tax matters, with several mandatory but also own-initiative opinions issued. The creation of the FISC subcommittee in 2020 and the growing work of the subcommittee are illustrative of this engagement.*

Looking into the 2024-2029 European Parliament legislature, what would you identify as the key tax priorities?

BG: The Socialists & Democrats (S&D) Group's key tax priorities for the current legislature are only partially covered in the mission letters addressed by President von der Leyen to Commissioners-designate, most notably to Wopke Hoekstra, who was explicitly charged with tax matters. We concur with the necessity, in particular, to establish a tax framework for the financial sector – which, in our view, should ensure this sector contributes more to finance our welfare state. In addition, while S&D welcomes the agreement on Pillar Two of the G20/OECD Inclusive Framework, we agree more work is necessary on corporate taxation reform, in order to more effectively prevent profit shifting and other tax avoidance schemes.

Beyond these common issues, our group is committed to critical causes that were overlooked by the President of the European Commission, such as the creation of a common framework for the taxation of capital gains. This matter is especially pertinent given the commitment to develop the Savings and Investments Union and foster cross-border investments. S&D also stresses that the current emphasis on the EU's economic competitiveness should not lead to a race to the bottom in tax subsidies; thus, we consider it is necessary to establish criteria and conditions for the types of tax incentives to be granted. Furthermore, in the long run, we remain mobilized to work on other subjects, such as strengthening the list of non-cooperative tax jurisdictions,

addressing the fiscal implications of remote work and devising technical solutions to ensure a fair and effective taxation of extreme wealth, in line with the proposal recently discussed at the G20, launched by the Brazilian Presidency.

EUTLSG: What is your view on the European Parliament's current role in tax matters? Should the European Parliament propose a change to the treaties to tackle shortcomings in the legislative procedure in tax matters?

BG: The European Parliament's influence on tax matters is significantly constrained by the treaties, which establish its role as merely consultative. Within the confines of the current treaties, we may reflect on the possibility of using [Article 116 TFEU](#), which seems a justifiable legal basis to legislate on tax matters under the ordinary legislative procedure, as a way to prevent the distortion of the internal market. Nevertheless, the prospects of EU enlargement would definitely warrant a reform of decision-making. Achieving unanimity among 27 Member States is (already) extremely challenging, and this would only be exacerbated with the addition of new countries to the Union.

Preferably, a treaty reform would not only grant the European Parliament full rights as a co-legislator on tax legislation but also facilitate effective deliberations in the Council of the EU by removing veto power. Transitioning to qualified majority voting (QMV) on taxation proposals would significantly enhance the EU's ability to fight tax evasion and avoidance – this could be achieved by starting to use QMV on limited cases, such as administrative cooperation, harmonization of the tax base and the allocation of taxing rights, while still preserving Member States' discretion to reject the creation of new taxes.

EUTLSG: Of the pending initiatives that have received a positive opinion from the European Parliament but are still awaiting agreement from the Member States, which one – Unshell, HOT or DEBRA – would you most like to see the Council reach a consensus on, and what factors contribute to your prioritization?

BG: The S&D Group has been leading the fight for tax justice at the EU level. Taking this track record into account, securing a positive outcome for the Unshell Directive would be my top pick. It is inconceivable that our tax systems remain so susceptible to unfair – and sometimes illegal – practices, such as the use of shell companies to avoid paying taxes. This issue represents a dual injustice: 1) it leaves law-abiding taxpayers at a disadvantage, for example competing SMEs; and 2) the loss of tax revenue due to these practices harms our societies by either forcing cuts in social services or increasing the tax burden on others.

However, it is crucial to emphasize that it is insufficient to reach an agreement on the Unshell Directive for the sake of agreeing alone. We want a decent outcome, one that includes measures that effectively prevent and penalize those who engage in these practices. Unfortunately, the latest reports of the discussion in the Council of the EU are not particularly exciting in that regard, since several Member States remain wary of being ambitious in this regard.

EUTLSG: In the coming years, what specific tax area would you like to see the Commission prioritize and introduce a new initiative on?

BG: In my first reply, I highlighted some of the S&D priorities for this mandate. To avoid a repetition, I will address another topic: it would be tremendously positive for the European Commission to introduce a legislative proposal on the implementation of Pillar One of the G20/OECD Inclusive Framework. Such a proposal would, first of all, mean that international negotiations reached a successful outcome, reinforcing confidence in multilateralism as an avenue that delivers results to our countries.

Additionally, an agreement on Pillar One (and its implementation) would decisively contribute to mitigate the current imbalance in tax contributions between the digital economy and traditional businesses. We do not aim to hinder innovation and e-commerce (on the contrary), yet we must ensure that all taxpayers pay their fair share to finance the welfare state. Currently, this is not the case, and it puts traditional businesses, which have more tax obligations, at a disadvantage.

Nonetheless, allow me to add that, if reaching an agreement on Pillar One proves unfeasible, I believe the European Commission – in line with the inter-institutional agreement on the current multi-annual financial framework and the Recovery and Resilience Plan – should present a proposal to create a digital levy applicable across the European Union. This would serve as a new own resource for the EU budget and would also level the playing field between brick-and-mortar and digital enterprises.

EUTLSG: *How do you perceive the European Parliament's increasing involvement in tax discussions through the FISC subcommittee? Do you believe this trend will continue, or has the subcommittee's role reached its maximum potential?*

BG: The European Parliament has played a crucial role in raising awareness about unfair tax practices that harm the EU as a whole. The establishment of consecutive special committees was beneficial, most notably by increasing pressure on the Commission and the Council to (finally) make reforms. After successive scandals involving billions of lost tax revenue, maintaining the status quo was no longer an option. The establishment of the FISC subcommittee grants further legitimacy to the work carried [out] in the EP, by providing us with a dedicated forum for tax matters which mobilizes academia, civil society, and other experts to contribute to public policy – which, in return, also increases the specialization of engaged MEPs.

Nevertheless, there is still a long way to fix structural flaws in the tax system, both within the EU and globally. Therefore, I believe this trend of EU-level involvement, and the EP's in particular, will continue. Frankly, I hope more political groups will recognize the necessity of working at the European level to address the weaknesses of our tax systems. While taxation is primarily a national issue – and the objective of the FISC has never been to undermine this principle – it is evident that there are areas where only cooperation between Member States can address shortcomings. In fact, tax sovereignty can be better protected by cooperating, rather than acting unilaterally.

IBFD references

- For an overview of legislative initiatives at the EU level on direct tax matters from the moment they are planned by the European Commission until their adoption by the Council of the European Union, see the [EU Direct Tax Law Initiatives Tax Dossier](#).
- For a more detailed analysis of the direct tax directives and initiatives, see section 3., on [Harmonization of Corporate Taxation](#), in C. Valério & S. Kale, *Direct Taxation*, Global Topics IBFD.
- EU tax law developments are reported in the daily IBFD [Tax News Service](#).
- IBFD webinars: [Unshell Directive Proposal: Tax Implications and Critical Issues](#); and [Pillar Two in Action: Practical Insights and Compliance Challenges](#)