

Taxation

Reduced VAT rates, specifically on labour intensive services:

Before the July ECOFIN Council meeting, **the European Commission submitted a proposal for a directive** concerning the widespread implementation (optional for Member States) of reduced VAT rates, which is currently authorised under derogations granted in some Member States until the end of 2010. The proposal follows a study whose findings the Commission published last July. Among other things, the study highlighted the fact that the implementation of reduced VAT rates to locally provided services did not have any discriminatory impact on the operation of the internal market, thus clearing the way for increased subsidiarity in this area.

Therefore, the proposal should allow for a more durable and fairer legal framework for reduced VAT rates, specifically concerning labour intensive services, such as the catering and restaurant industry.

Following the **discussions** that were held at **the informal Nice meeting and later at the October ECOFIN Council meeting** on the economic impact of VAT rates and their use to achieve sector-based policy goals, **the Ministers should be examining the proposal for a directive at the November Council meeting.**

Fight against VAT fraud

At the ECOFIN Council meeting of October 7th, the Ministers decided to establish the Eurotax* official information exchange network. If **this system** is to be efficient it **must be supplemented with "conventional" measures** aimed at improving the quality and speed of information transmission. Compliant with the decision at the November 2006 ECOFIN Council meeting, the Commission has submitted proposals to improve the current system for administration cooperation and information exchange on VAT between the Member States. In practice, the proposals for a directive and regulation should lead to **an increased exchange of information between the tax administrations.** This is made possible through the enlargement of the scope of transactions covered by the automated VAT information exchange system called VIES, and because of an increased exchange frequency.

*Reminder: Eurotax is an official network for the fast multilateral exchange of targeted information on operators presenting a high risk of VAT fraud. The network is meant to enable the States' fast response in case of suspected carousel fraud (VAT fraud involving several companies belonging to the same business chain established in at least two Member States of the European Union. The fraud consists in obtaining a VAT deduction or refund for the delivery of goods whereas VAT has not been paid to the Treasury, with intent to avoid payment).

At the November Council meeting, the Ministers will be working to find a common orientation on the proposals so as to adopt them. The Commission is also scheduled to submit other measures to complete the anti-fraud strategy before the end of the year, and specifically measures which include the creation of the Eurotax network into the EU legislative corpus.

Other Events during the ECOFIN Council

Before and after the ECOFIN Council, other events will be bringing together national and European institutional stakeholders:

3 November

The macroeconomic dialogue meeting: this involves a **dialogue between the authorities of the Economic and Monetary Union** and labour and union leaders, chaired by Christine LAGARDE. This will be an opportunity to address the current economic situation and the impact of the financial crisis on the real economy, specifically regarding prices and wages. The macroeconomic dialogue brings together the three Presidents, representatives of the European federations of employers and employees, the Commission, and the ECB and Eurogroup Presidents.

Meeting of the Eurogroup

4 November

Lunch of Finance Ministers of the European Union with the sovereign wealth funds: the need to re-create a long-term financial system based on financial stability and non-speculative capitalism as well as the role of sovereign wealth funds in the possible reform should be on the agenda.

Annual meeting of the Finance Ministers of the European Union with their counterparts from the European Free Trade Association (Liechtenstein, Norway, Switzerland and Iceland). The ministers will share their analyses of the financial crisis and may have in-depth discussions on a reform of the international financial architecture, with a focus on the financial cooperation between oversight authorities and on combating tax fraud. On this subject, the ECOFIN Council will be examining an agreement on the anti-fraud fight with Liechtenstein.

For further information: www.ue2008.fr



**French
Presidency of
the European
Union Council**

ECOFIN

Council

**4 November 2008
Brussels**

On November 4th, Christine LAGARDE, the French Minister for the Economy, Industry and Employment, will be chairing her fourth ECOFIN Council meeting. The ECOFIN Council brings together the Economy and Finance Ministers of the European Union. At this meeting, the Ministers will continue the work that had started at the previous ECOFIN Council meeting and propose responses to the financial crisis along with a reform of the international financial architecture. The November ECOFIN Council meeting is in line with the guidelines adopted by the European Council of 15 and 16 October. Its aim is to prepare the European informal meeting of heads of state and government of November 7th. Once adopted at the European level, these principles will then serve to prepare the November 15th International Summit in Washington. The ECOFIN Council will also be addressing tax issues, and specifically the implementation of reduced-rate VAT, the fight against tax fraud and tax evasion.

The response to the financial crisis

As early as **October 7th**, in an immediate response to the financial turmoil and to restore confidence in the markets, **the ECOFIN Council adopted conclusions** that showed the 27 Member States had agreed on the need:

- to support so-called ‘systemic’ financial institutions, i.e., the ones whose smooth operation is critical to the financial system – and specifically by injecting capital into vulnerable institutions, **to enhance the soundness and stability of the banking systems**. For this purpose, the Member States agreed that public intervention had to be decided at the national level but within a coordinated framework with daily contact to share information;
- for greater **flexibility in the application of International Financial Reporting Standards** (IFRS) to avoid too sharp a depreciation of the assets held by European banks and prevent any discrimination compared to US banks;
- to implement an agreement on the level of coverage of **national deposit guarantee schemes**. For a period of one year, the deposit guarantee protection for individuals shall be a minimum amount of EUR 50,000. The Commission has already brought forward a proposal to that effect, which is now being reviewed from a technical point of view;
- to use the **flexibility** mechanisms provided for by the **Stability and Growth Pact**, which was amended in 2005;
- for the Commission to apply greater **flexibility in state aid decisions**;
- for **discussions on executive pay** and on strengthening the link between executive pay and actual performance.

The conclusions were forwarded to the European Council for its meeting of 15-16 October. On this basis, the European Council adopted conclusions that lay emphasis on the need to set up an early warning system, its determination to take the necessary measures to support growth and employment, and the Europeans’ resolve to contribute to the reform of the international financial

system. **The ECOFIN Council meeting of November 4th** will pursue **its work** on the response to the financial crisis and will have its **first discussions on the impact of the financial crisis on the real economy**.

Reforming the International Financial Architecture

What will be the purpose of the new architecture?

Its purpose will be to bring forward new ideas regarding the reshaping of global capitalism. These ideas have to do with **renovated regulation and oversight**, thus reorienting the activities of the financial sector toward funding the real economy while avoiding short-term rationale, fostering **greater stakeholder accountability, transparency** broadened to include the entire financial sector, increased consistency between regulatory and oversight frameworks, and a **better grasp on the risks**.

What would the major tenets for action?

Three major tenets were put forward by the French Presidency to the 27 countries of the European Union:

1. Step up Oversight and Regulation of the Financial Sector

Including all the stakeholders likely to have an impact on financial stability within the scope of regulators’ oversight is essential. Most often, crises are the result of wrong practices within non-supervised niches of financial activities. If oversight is to be efficient, ensuring that it is consistent on an international level is necessary. It is equally important that the financial system should contribute to the proper financing of the economy. Excessive short-term behaviours with so-called “procyclical” effects, which intensify the economic cycle, have to be avoided. Accordingly, discussions on a reform of the pay system should be held to avoid encouraging irresponsible behaviour.

2. A comprehensive approach to risks through the strengthening of the role of international financial institutions

International financial institutions, and specifically the IMF, should be at the core of the new world regulation. They could be entrusted with the deployment of an information network and **an early warning system against crises** as well as an oversight framework which would incorporate in a more comprehensive way the financial sphere with the real economy. They must also be involved in the **discussion on ‘procyclicality’ of accounting and prudential standards**. They could also ensure **greater oversight of rating agencies and hedge funds**. Finally, the IMF could be in charge of the effective implementation of the recommendations of the Financial Stability Forum.

3. The strengthening of the legitimacy of the international financial architecture

The strengthening of the legitimacy of the international financial architecture could be ensured by **improving the way emerging and developing countries are associated** with these efforts. For instance, the emerging G20 countries could be more closely associated with the work of the Financial Stability Forum. The French Presidency has also suggested exploring the feasibility of making the selection process for the World Bank President and IMF Director General more open and transparent. Ministerial oversight over the IMF, which is currently handled by the International Financial and Monetary Committee (IMFC), could be increased to strengthen the legitimacy of the institution. IMF financial support instruments could also be strengthened to better meet the needs of countries hit by the crisis.

What process is needed to attain these results?

The French Presidency would like Europe to play a major part at the international summit on the financial crisis that will be held in the United States on November 15th and bring together the main developed and emerging countries. That is why France will ask its European partners to adopt at the November 4th ECOFIN Council meeting the major orientations which will guide the discussions at later international meetings.

Responses to the financial crisis: European and international red letter

4 October	7 October	10 October	12 October	15-16 October	4 November	7 November	8-9 November	15 November
Summit of European G8 Members (G4 Summit) in Paris	ECOFIN Council meeting in Luxembourg	Meeting of G7 Finance ministers in Washington	Meeting of the heads of state and government of the Eurogroup in Paris	European Council meeting in Brussels	ECOFIN Council meeting in Brussels	Informal meeting of the European heads of state and government in Brussels	G20 in Sao Paulo	Special international G20+ Summit on global financial crisis in Washington