

The External Tax Strategy of the EU in a Post-BEPS Environment

Editor:
Adolfo Martín Jiménez



Table of Contents

Preface		xvii
Part 1		
The EU External Tax Policy in a Strict Sense		
Chapter 1:	The EU's External Strategy for Effective Taxation: The General Framework and the Role Played by the European Commission	1
	<i>Francesco Bungaro, Marco Federici and Franco Roccatagliata</i>	
1.1.	The EU external policy before 2016	1
1.2.	Principles of good governance in tax matters	4
1.2.1.	From "good governance" to "tax good governance"	4
1.2.2.	The EU recipe on tax good governance	7
1.3.	The external strategy on taxation: The scope	10
1.3.1.	Introduction	10
1.3.2.	A new listing process	10
1.3.3.	A new tax good governance clause	12
1.3.4.	The implementation of good governance principles in bilateral and multilateral instruments	14
1.4.	The EU list of non-cooperative third-country jurisdictions for tax purposes	16
1.4.1.	The EU listing process	16
1.4.2.	Implementation of the EU list	19
1.5.	Conclusions	21
Chapter 2:	The Compatibility of the EU Tax Haven "Blacklist" with the Fundamental Freedoms and the Charter	25
	<i>Ivan Lazarov</i>	
2.1.	Introduction	25

Table of Contents

2.2.	List of non-cooperative jurisdictions for tax purposes	26
2.2.1.	The Blacklist as part of the EU external strategy in tax matters	26
2.2.2.	Grounds to be put on the Blacklist	27
2.2.3.	Defensive measures	29
2.2.4.	Domestic and EU-wide blacklists	31
2.3.	Compatibility of the Blacklist with the free movement of capital	32
2.3.1.	Scope	33
2.3.2.	Restriction	35
2.3.3.	Justification	36
2.3.4.	Proportionality	38
2.4.	Compatibility with the Charter	43
2.4.1.	Scope	44
2.4.2.	Human rights compatibility with blacklisting	47
2.5.	Conclusion	50
Chapter 3:	Trade Agreements and the External Tax Policy of the European Union: Is a Change in Direction Needed, and Are EU Tax Treaties an Alternative?	51
	<i>Adolfo Martín Jiménez</i>	
3.1.	Introduction	51
3.2.	The role of agreements with third countries in the EU external tax policy	52
3.2.1.	The first phase in the policy formulation: Connection between trade and taxation	52
3.2.2.	The second phase: The 2016 Communication on an External Strategy for Effective Taxation	57
3.3.	Good governance and State aid clauses in EU treaties with third countries: The current situation	62
3.4.	Tax good governance and State aid clauses in EU treaties with third countries: An assessment	64

3.5.	Direct taxes and trade agreements between the European Union and third countries	66
3.6.	Is it a good policy to give more tax content to EU trade agreements, or should tax issues be detached from trade agreements?	83
3.7.	Conclusions	92
Part 2		
The External EU Tax Policy in a Broad Sense		
Chapter 4:	The EU and OECD Contend to Lead Global Tax Governance	95
	<i>Ubaldo Gonzalez de Frutos</i>	
4.1.	Introduction	95
4.2.	The importance of international tax good governance	96
4.3.	20 years in perspective	99
4.3.1.	Origins	100
4.3.2.	The expansion of the good governance concept to taxation	101
4.3.3.	Efforts to institutionalize international tax good governance	102
4.3.4.	Globalization of tax good governance	106
4.4.	Current situation	112
4.4.1.	Membership	113
4.4.2.	Focus	115
4.4.3.	Instruments	115
4.5.	Looking at the future	117
4.5.1.	The case for global tax good governance	117
4.5.2.	Competition between the OECD and the European Union	118
4.6.	Conclusion	123

Chapter 5:	Transparency and Exchange of Information: BEPS in EU Legislation – More Advanced Standards or Distortion?	125
	<i>Richard Lyal</i>	
5.1.	Introduction	125
5.2.	Transparency in the European Union	127
5.3.	More advanced standards or distortion?	140
Chapter 6:	Regulation and Effects of Fiscal State Aid in Third-State Relations	149
	<i>Peter J. Wattel</i>	
6.1.	Overview	149
6.2.	State aid is catching up	149
6.3.	The triple face of the arm’s length principle	151
6.4.	(The US reaction to) the <i>Apple</i> case	152
6.4.1.	Five ways to present the <i>Apple</i> case	152
6.4.2.	The impact on transatlantic relations	154
6.5.	Discrimination analysis or benchmark approach?	155
6.6.	State aid provisions in agreements with third states	160
6.6.1.	Introduction: State aid law is typically EU (and EEA) and viewed as rather odd in many third states	160
6.6.2.	The EEA Agreement	161
6.6.3.	The EU-Switzerland Trade Agreement	162
6.6.4.	The WTO Agreement on Subsidies and Countervailing Measures (SCM)	165
6.6.5.	EU-Canada: Chapter 7 of the CETA	166
6.6.6.	The EU-MED agreements	167
6.6.7.	EU-South Africa/SADC Agreement	168
6.7.	Conclusion	168

Chapter 7:	The BEPS Multilateral Instrument and EU Law	171
	<i>Pasquale Pistone</i>	
7.1.	Introduction	171
7.2.	Object, purpose and structural features of the BEPS MLI	171
7.3.	The relations between the BEPS MLI and EU law	173
7.4.	The implementation of the BEPS MLI and EU law	175
7.4.1.	The legal instruments for implementation in the European Union	175
7.4.2.	The notion of abusive practices under the BEPS MLI and EU secondary and primary law	177
7.4.3.	Arbitrating cross-border tax disputes in the European Union	180
7.5.	Conclusions	184
Chapter 8:	The ATAD and Third Countries	187
	<i>Paolo Arginelli</i>	
8.1.	Introduction	187
8.2.	The policy perspective	187
8.2.1.	In general	187
8.2.2.	The ATAD as the European Union's response to the BEPS Project	191
8.2.3.	The exit tax regime	193
8.2.3.1.	The ATAD preamble	193
8.2.3.2.	Taxation of outbound transfers and option for deferral	194
8.2.3.3.	Inbound transfers	194
8.2.3.4.	Critical remarks	195
8.2.4.	The CFC rule	197
8.2.4.1.	Conditions for application and effects	197
8.2.4.2.	Critical remarks	198

8.3.	The ATAD and tax treaties with third countries	199
8.3.1.	Possible conflicts between the ATAD and tax treaties between Member States and third countries	199
8.3.2.	The ATAD CFC rule and previous tax treaties	206
8.3.3.	ATAD hybrid mismatch rules and previous tax treaties	207
8.3.3.1.	In general	207
8.3.3.2.	Disregarded permanent establishments	208
8.3.3.3.	Hybrid payments	209
8.4.	The ATAD and the free movement of capital	215
8.5.	Conclusions	217
Chapter 9:	Coordination of Negotiation of Member States' Double Tax Treaties with Third States in a Post-BEPS and Post-ATAD Era: The Case of Hybrid Mismatches	219
	<i>Cécile Brokelind</i>	
9.1.	About coordination of Member States' negotiation of double tax treaties with third states	219
9.1.1.	A matter of competence?	219
9.1.2.	Assumptions and questions	225
9.2.	Hybrid mismatches and third states	227
9.2.1.	Typology	227
9.2.2.	Examples	229
9.2.2.1.	Questions	229
9.2.2.2.	Hybrid Instruments, different characterization of income and deduction/non-inclusion	230
9.2.2.3.	Branch mismatches	233
9.2.2.4.	Dual-residence mismatches (article 9b of the ATAD)	234
9.2.2.5.	Interim conclusions	235
9.3.	Conclusions	236

Part 3

The European Union as a Block for Third Countries and
Cases of EU Relations with Individual States

Chapter 10:	Harmful Tax Competition from the European Union towards Third Countries?	241
	<i>Werner Haslehner and Paloma Schwarz</i>	
10.1.	Introduction	241
10.2.	Harmful tax competition	242
10.2.1.	Harmful tax competition	243
10.2.1.1.	Theories of harmful tax competition	243
10.2.1.2.	OECD and EU definitions of harmful tax competition	248
10.2.2.	Good tax competition?	249
10.2.3.	Harmful tax competition: More complicated than it first appears	252
10.3.	Tax competition of the European Union: Examples from primary EU law	254
10.3.1.	Introduction	254
10.3.2.	Fundamental freedoms	254
10.3.3.	State aid	259
10.4.	Tax competition by the European Union: Examples from secondary EU law	260
10.4.1.	VAT	260
10.4.2.	Parent-Subsidiary Directive and Interest and Royalties Directive	261
10.4.3.	Common consolidated corporate tax base	262
10.4.4.	An example of defensive tax measures: The Anti-Tax Avoidance Directive	263
10.4.5.	The proposals for special taxation of digital services	264
10.5.	Tax competition by the European Union: Impact of soft law	265
10.6.	Conclusion and outlook	266

Chapter 11:	Challenges for a Europeanist in Times of BEPS and the ATAD	269
	<i>Frans Vanistendael</i>	
11.1.	Introduction	269
11.2.	Challenges for the internal market	270
11.2.1.	The long and unfulfilled wish list	270
11.2.2.	Cross-border tax loss relief	271
11.2.3.	Common consolidated corporate tax base	272
11.2.4.	Tackling double taxation	273
11.2.5.	Closing loopholes and gaps in existing directives that still allow double taxation	276
11.2.6.	Abandoning an EU system of exchange of information	278
11.2.7.	The challenge of finding EU tax incentives compatible with State aid rules	278
11.2.8.	Conclusion on the challenges for the internal market	279
11.3.	Challenges for the euro	281
11.3.1.	The nature of the difference in challenge	281
11.3.2.	The weaknesses in the current institutional set-up of the euro	282
11.3.3.	Inadequate size of the ESM	283
11.3.4.	Deficiencies in the decision-making procedure	283
11.3.5.	Absence of a common economic policy	284
11.3.6.	Absence of a separate and independent budget	285
11.4.	Remedies improving the current institutional set-up	285
11.4.1.	The list of reforms	285
11.4.2.	Replacing the ESM with an EUMF	286
11.4.3.	Completion of the banking union	286
11.4.4.	Reforming the ECB into a lender of last resort	288
11.4.5.	Establishing a central authority for a eurozone economic policy	289
11.4.6.	A separate and independent budget	291
11.4.7.	Separate and independent financing of the euro budget through uniform euro taxes	292

11.5.	Conclusion: A democratic revolution is needed	294
11.5.1.	The institutional condition: No taxation without representation	294
11.5.2.	The mind shift on the European Economic Union	295
11.5.3.	Take it or leave it	295
Chapter 12:	The WTO Implications of Brexit: UK Traders Caught between International and EU (Trade and Tax) Law?	297
	<i>Servaas van Thiel</i>	
12.1.	Introduction	297
12.2.	The WTO and the European Union	298
12.2.1.	How both regulatory systems remove (tax) obstacles to trade	298
12.2.2.	The hierarchical relation and four interfaces between WTO and EU law	302
12.2.3.	WTO impact in the area of taxes	305
12.3.	Brexit's WTO implications for the European Union, the United Kingdom and UK exporters	306
12.3.1.	Brexit is Brexit, but what does that really mean?	306
12.3.2.	Brexit implications for the European Union and the United Kingdom	308
12.3.3.	Brexit implications for UK traders	313
12.4.	Summary and conclusions	317
Chapter 13:	The EU and US Relationship: Is the EU Legal Bridge Safe?	327
	<i>Ricardo García Antón</i>	
13.1.	Introduction	327
13.2.	Testing the EU legal framework through the lens of US enterprises	329
13.2.1.	Access to the market to broaden the scope of the free movement of capital	330

13.2.2.	Justification of the need to guarantee effective supervision: The case of US investment funds	335
13.2.3.	Different treatment of outbound payments (passive income) to US enterprises: Pleading for equality?	339
13.3.	The impact of US tax policy on EU cross-border investment	345
13.3.1.	LOB provisions to tackle avoidance schemes	346
13.3.2.	The US tax reform for EU investors	349
13.4.	Conclusions: The absence of fair US-EU tax competition	353

Part 4

Trends in the External Policy of the European Union with an Impact on Taxation

Chapter 14:	The EU Charter of Fundamental Rights and the Legal Order of Third Countries: A Commentary on the <i>Schrems/PNR</i> Data Jurisprudence	361
	<i>Pedro Cruz Villalón</i>	
14.1.	Introduction	361
14.2.	The fundamental rights regarding the collection and processing of personal data: The internal dimension (<i>DRI</i> and <i>Tele2 Sverige</i>)	364
14.3.	The fundamental rights concerned with the collection and processing of personal data: The external dimension (<i>Schrems</i> and <i>PNR</i>)	368
14.4.	The <i>Schrems/PNR</i> doctrine: A commentary, in ten points	372

Chapter 15:	The External Competences of the European Union: Recent Developments in Migration and Trade Agreements	377
	<i>Alejandro del Valle Galvez</i>	
15.1.	Introduction	377
15.2.	Migration and external border control	377
15.3.	The trade agreements	381
15.3.1.	The ECJ Singapore Trade Agreement: Opinion 2/15	381
15.3.2.	The consequences of ECJ Opinion 2/15	383
15.3.3.	ECJ Opinion 3/15 on the Marrakech Treaty and the Minimum Harmonization Exception	384
15.4.	Conclusions	386