

## European Commission publishes proposal for recovery plan and adjusts 2020 Work Programme

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### Executive summary

On 27 May 2020, the European Commission (the Commission) presented its [proposal for a recovery plan](#) from the crisis that societies and economies face due to COVID-19. To ensure the recovery is sustainable and fair for all European Union (EU) Member States, the Commission proposed to create a new recovery instrument worth €750 billion, called "Next Generation EU." As part of the funding proposal for the instrument, the Commission proposed the introduction of EU taxes to complement the existing own resources. This controversial proposal includes a:

- ▶ New corporate tax based on operations that will be levied on companies that draw huge benefits from the EU single market and will survive the crisis
- ▶ Digital tax for large companies
- ▶ Tax on non-recycled plastic packaging waste
- ▶ Carbon border adjustment mechanism
- ▶ Emissions Trading System-based resource including a possible extension to maritime and aviation sectors

The analysis and assessment of the Commission's proposal will start immediately in the bodies of the EU institutions with the aim to reach a political agreement at the level of the European Council by July.

Also, on the same date, the Commission published its [adjusted 2020 Work Programme](#) (the adjusted Work Programme or Programme). The Commission had initially adopted its Work Programme for 2020 on 29 January 2020.<sup>1</sup> However, the COVID-19 crisis has caused delays on the planned tax outputs and the Commission had to adjust the timing:

- ▶ The Communication on Business Taxation for the 21st century is now expected to be released during the fourth quarter of 2020.
- ▶ The Anti-fraud tax package, including: (i) Communication on an "Action Plan to fight tax evasion and to make taxation simple and easy"; (ii) Communication on "Tax good governance in the EU and beyond"; and (iii) Revision of the Directive on automatic exchange of information - DAC7, is expected in mid-July 2020.

## Detailed discussion

### The EU recovery plan

On 26 March 2020, the Members of the European Council (the Council) called on the Commission to develop a coordinated exit strategy, a comprehensive recovery plan and unprecedented investment to allow sustainable growth.<sup>2</sup> On the basis of this mandate, on 15 April the Presidents of the Commission and the Council presented, as a first step, a Joint European Roadmap towards lifting COVID-19 containment measures.<sup>3</sup>

On 27 May 2020, the Commission presented its recovery plan proposal, embedded within a revamped long-term EU budget. During the press conference, European Commission President Ursula von der Leyen said: *The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalization will boost jobs and growth, the resilience of our societies and the health of our environment. This is Europe's moment. Our willingness to act must live up to the challenges we are all facing. With Next Generation EU we are providing an ambitious answer.* Along the same lines, Commissioner for Economy Paolo Gentiloni, participating in an event of the International Finance Institute a day before the release of the recovery plan, expressed that he is convinced that there are now stronger reasons to achieve a result on a European common corporate income tax and a digital tax and he is confident that the forthcoming German Presidency will help in this direction.

The Commission proposed to create the Next Generation EU, a new recovery instrument, which will raise money by temporarily lifting the own resources ceiling to 2% of EU Gross National Income, allowing the Commission to borrow €750 billion from the financial markets. To help do this in a fair and shared way, the Commission proposed new own resources to complement the traditional own resources which include customs duties, contributions from the Member States based on value-added tax (VAT) and those based on gross national income (GNI). The new resources will build on EU priorities and policies aiming to address climate change, but also fair taxation in a globalized world. The possible new resources are:

- ▶ A corporate tax based on operations that will be levied on companies that draw huge benefits from the EU single market and will survive the crisis. Depending on its design, this new own resource could yield around €10 billion annually.
- ▶ A digital tax applied on companies with a turnover above €750 million that could generate up to €1.3 billion per year for the EU budget.
- ▶ A tax on non-recycled plastic packaging waste which could generate revenues up to €6.6 billion per year for the EU budget.
- ▶ A carbon border adjustment mechanism which would help to prevent carbon leakage and could bring additional revenues ranging from about €5 billion to €14 billion, depending on the scope and design.
- ▶ An Emissions Trading System-based own resource including its possible extension to the maritime and aviation sectors. Such own resource could generate revenues for the EU budget of about €10 billion, depending on the evolution of the carbon price and the extension of the system to other sectors.

The Commission indicates that the new resources could help finance the repayment of and the interest on the market finance raised under Next Generation EU. Although no concrete proposals for the timing of the introduction have been made, it is indicated that if introduced by 2024, Member States' national contributions to the 2021-2027 multiannual financial framework could decrease as a share of their economy compared to their payments in 2020.

The money raised for Next Generation EU will be invested across three pillars:

- ▶ Support to Member States with investments and reforms
- ▶ Kick-starting the EU economy by incentivizing private investments
- ▶ Addressing the lessons of the crisis

The Commission invited the Council and the co-legislators to examine these proposals rapidly, with a view to reaching a political agreement at the level of the Council by July.

### Adjusted 2020 Work Programme

Every year, the Commission publishes a Work Programme which sets out a plan of action for the next 12 months. The Programme describes how the political priorities will be turned into concrete actions and helps stakeholders and the other EU institutions plan their work with the Commission. An overview of released Work Programmes related to previous years is available [here](#).

On 29 January 2020, the Commission adopted its 2020 Work Programme which sets out 43 new policy objectives, categorized under six headline ambitions. It also outlined two key tax initiatives; a Communication on Business Taxation for the 21st century, focusing on taxation aspects relevant in the Single Market and an Action Plan to Fight Tax Evasion. The Communication on Business Taxation would be a non-legislative initiative and the Action Plan to Fight Tax Evasion would include both legislative and non-legislative items, as well as an impact assessment. Both of these initiatives were expected to be communicated further during the second quarter of 2020.

Due to the COVID-19 outbreak, the Commission adjusted its Work Programme to adapt it to the new circumstances. The adjusted Work Programme was adopted and published on 27 May 2020. According to the adjusted Work Programme for 2020, the priorities that were presented in January 2020 remain valid and the Commission is determined to deliver on its commitments. The slight delays foreseen in the adjusted

Work Programme<sup>4</sup> for a number of initiatives reflect the need to learn and integrate lessons from the crisis, to allow time for proper consultation or to ensure that better regulation principles are respected.

Regarding the tax-related initiatives, the Communication on Business Taxation for the 21st century is now expected to be released during the fourth quarter of 2020, and the Anti-fraud tax package including: (i) Communication on an "Action Plan to fight tax evasion and to make taxation simple and easy"; (ii) Communication on "Tax good governance in the EU and beyond"; and (iii) Revision of the Directive on automatic exchange of information - DAC7, is expected on 15 July 2020 based on the Commission work schedule.

## Implications

By proposing additional taxes as new means for EU spending, the Commission is adding fuel to the heated debate on solidarity in the Union. Members of national parliaments of EU Member States have already responded negatively, and the negotiations on the recovery instrument are difficult to predict. The Commission's proposals however clearly reveal that tax will play a main role for financing stimulus measures in the EU, as well as in the post-COVID-19 recovery phase. Also, it confirms that the EU is claiming a frontrunner position in the international tax debate.

Also, the tax priorities included in the adjusted Work Programme will likely result in increasing output from the Commission in the second half of 2020 and taxpayers may therefore find themselves having to monitor, assess and engage with a higher volume of tax policy output than anticipated.

In this rapidly changing and unpredictable EU tax landscape, companies should assess the potential impact on their operations. Taxpayers may also wish to engage directly with national and EU policy-makers to create awareness for their business models as possible building blocks for new taxes in the EU that are being shaped.

## Endnotes

1. See EY Global Tax Alert, [European Commission publishes 2020 Work Programme, including two tax initiatives](#), dated 31 January 2020.
2. <https://www.consilium.europa.eu/en/press/press-releases/2020/03/26/joint-statement-of-the-members-of-the-european-council-26-march-2020/>.
3. [https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/european-roadmap-lifting-coronavirus-containment-measures\\_en](https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/european-roadmap-lifting-coronavirus-containment-measures_en).
4. See Annex I of the adjusted Work Programme for an overview of the changes: [https://ec.europa.eu/info/sites/info/files/cwp-2020-adjusted-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/cwp-2020-adjusted-annexes_en.pdf).

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For additional information with respect to this Alert, please contact the following:

### **Ernst & Young Société d'Avocats, Paris**

- ▶ Jean-Pierre Lieb                      jean.pierre.lieb@ey-avocats.com

### **Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich**

- ▶ Klaus von Brocke                      klaus.von.brocke@de.ey.com

### **Ernst & Young Belastingadviseurs LLP, Amsterdam**

- ▶ Gijsbert Bulk                              gijsbert.bulk@nl.ey.com
- ▶ Konstantina Tsilimigka              konstantina.tsilimigka@nl.ey.com

### **Ernst & Young Belastingadviseurs LLP, Rotterdam**

- ▶ Marlies de Ruiter                      marlies.de.ruiter@nl.ey.com
- ▶ Maikel Evers                              maikel.evers@nl.ey.com

### **Ernst & Young LLP (United States), Global Tax Desk Network, New York**

- ▶ Gerrit Groen                              gerrit.groen@ey.com
- ▶ Jose A. (Jano) Bustos              joseantonio.bustos@ey.com

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