

Enhancing Tax Compliance and Citizen Trust: The Case for a Single Tax Jurisdiction in the European Union

Christian Ilcus

Manager of Gociu Consult, Denmark

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ABSTRACT

This study aims to investigate the implications of establishing a Single Tax Jurisdiction (STJ) within the European Union, focusing on its potential to enhance tax compliance, efficiency, and citizen trust. Utilizing advanced AI analysis techniques, the research examines existing tax frameworks across member states, identifying inefficiencies and disparities that hinder effective tax administration. The methodology involves a comprehensive data analysis of tax compliance rates, administrative capacities, and stakeholder perceptions, supplemented by simulations of potential STJ implementation scenarios. Key findings reveal that a unified tax jurisdiction could significantly reduce compliance costs, streamline administrative processes, and improve revenue generation across diverse economic contexts. Furthermore, the study highlights the importance of transparency mechanisms, such as citizen panels and real-time data sharing, in fostering trust and engagement among taxpayers. Overall, the conclusions suggest that the establishment of an STJ presents a viable pathway for addressing the challenges of fragmented tax systems in the EU. By promoting a more equitable and efficient tax environment, the STJ has the potential to enhance fiscal legitimacy and support deeper economic integration within the Union. The findings underscore the necessity for collaborative efforts among member states to realize the benefits of a unified tax framework while ensuring that citizen concerns and expectations are adequately addressed. We submit a four-pronged approach will be necessary to move forward the EU as a Tax Polity: (1) An EU-MS Tax Partnership (2) A EU Common Tax base (3) The EU as a multilevel Tax administration (4) A Single EU Tax Jurisdiction. Finally, the EU doesn't generate enough income per capita in comparison to GDP ratio that stands at €7,1 trillion in revenues compared to €24 trillion in GDP. This has a negative impact on the EU's perceived and real abilities to accumulate wealth hence its potential to develop into a powerful polity.

Keywords: Single Tax Jurisdiction, EU Taxation, Tax Compliance, Citizen Trust, Transparency, Tax Administration, Economic Integration, AI Analysis, Fiscal Legitimacy, Tax Framework Reform

INTRODUCTION

The European Union in the 21st century is increasingly best understood not only as a regulatory and economic union, but also as an emerging form of joint tax administration in practice, even if not fully in legal form.

At its core, taxation remains a competence of member states. Each state retains authority over direct taxes such as income and corporate taxation, while the EU plays a stronger role in indirect taxation, particularly VAT rules and customs duties. However, the pressures of globalization, digitalisation, and capital mobility have steadily pushed tax governance beyond purely national boundaries.

As a result, the EU has developed dense coordination structures that resemble a shared administrative system. Member states cooperate through common reporting standards, exchange of tax information, and joint frameworks to combat fraud and avoidance. Institutions such as the European Commission, alongside bodies like Eurofisc, increasingly function as coordinators of transnational tax enforcement rather than purely advisory actors.

In parallel, international initiatives such as the OECD's BEPS framework have reinforced the EU's internal convergence, especially in corporate taxation and transparency rules. This has led to a gradual harmonisation of administrative practices, even where formal tax rates remain divergent.

Digitalisation has further accelerated this shift. Automatic exchange of financial data, real-time reporting systems, and cross-border audit cooperation are creating an integrated administrative environment in which tax authorities operate as interconnected nodes rather than isolated systems.

The EU therefore functions as a hybrid tax governance system: not a single tax state, but more than a loose association. It combines national sovereignty with supranational coordination, producing a layered structure of fiscal governance.

In this sense, the EU can be seen as a 21st-century experiment in shared tax administration—where integration is driven less by formal constitutional centralisation and more by practical necessity in managing a highly interconnected economic space.

The European Union's institutional design reflects the historical priorities of economic integration rather than geopolitical competition. The creation of the single market and the monetary union has produced deep economic interdependence, yet fiscal authority remains overwhelmingly national. At the same time, military capabilities are fragmented and embedded within national defense structures, with coordination primarily occurring through NATO rather than EU institutions.

This configuration produces a structural imbalance. The Union possesses regulatory and economic power but lacks the fiscal instruments required to sustain independent strategic action. As a result, it operates as a “civilian” or “normative” power in a global environment increasingly shaped by actors that combine economic, fiscal, and military capabilities in an integrated manner.

The consequences of this imbalance are visible in three domains. First, the Union's strategic autonomy is constrained by its reliance on the United States for security guarantees. Second, the absence of a centralized fiscal capacity limits the scale and predictability of investment in defense, innovation, and industrial resilience. Third, fragmented tax systems create inefficiencies, distortions, and opportunities for avoidance that weaken overall fiscal performance.

Without reform, the European Union risks remaining structurally dependent and strategically reactive. The challenge is therefore not merely technical but constitutional in nature: how to build fiscal capacity within a system that is neither a federation nor a traditional international organization.

The European Union has reached a structural limit in its current institutional configuration. While it operates as one of the most integrated economic blocs in the world, its fiscal and military capacities remain fragmented along national lines. This asymmetry constrains its ability to act as a coherent geopolitical actor, particularly in an international environment increasingly defined by strategic competition and security uncertainty. Continued reliance on external security providers, most notably NATO and the United States, exposes the limits of European strategic autonomy.

This piece advances a hierarchical argument structured around necessity, feasibility, and institutional design. First, it argues that the European Union should evolve into a fiscal-military actor, requiring the development of a structured taxation partnership with its Member States. This is presented as a strategic necessity linked to the EU's capacity to act cohesively in fiscal and security domains. Second, it clarifies the constraints of this transformation, rejecting full fiscal federalisation as both politically and legally unfeasible under current treaty frameworks. This establishes the boundaries within which reform must operate. Third, it proposes an alternative institutional pathway, namely a calibrated “double-decker” model. In this model, national tax sovereignty is retained at the Member State level, while a limited but functional EU-level fiscal capacity is incrementally developed above it. Taken together, the argument advances a staged and asymmetrical integration strategy that balances political feasibility with functional expansion of EU fiscal authority.

At the center of this proposal is the creation of a European Security Contribution, a hybrid fiscal instrument anchored in national tax systems but partially allocated to EU-level security and defense funding. This mechanism would be complemented by deeper coordination in corporate taxation, enhanced anti-fraud enforcement, and expanded joint procurement through existing EU defense initiatives.

The proposed approach is deliberately incremental. It aligns with existing legal frameworks, mitigates political resistance, and builds legitimacy through transparency and tangible outcomes. By linking fiscal capacity directly to shared security objectives, the European Union can begin to close the gap between its economic weight and its geopolitical influence.

We argue the establishment of a Single Tax Jurisdiction (STJ) within the European Union is essential for addressing the challenges posed by fragmented tax systems that lead to inefficiencies, tax avoidance, and inequities among member states. A unified tax framework can enhance compliance, reduce administrative burdens, and foster economic integration, ultimately contributing to a more resilient and equitable fiscal environment. This study will explore the implications of implementing an STJ, focusing on its potential to streamline tax administration, improve revenue collection, and align taxation with modern economic realities.

The study will encompass the following areas:

1. Comparative Analysis: Examination of existing tax systems across EU member states to identify disparities, inefficiencies, and areas of potential improvement.
2. Impact Assessment: Evaluation of the potential economic and social impacts of implementing an STJ, including effects on compliance rates, revenue generation, and regional equity.
3. Legal Framework: Analysis of the legal implications and requirements for establishing an STJ, including necessary treaty changes and the delegation of tax authority.
4. Stakeholder Perspectives: Investigation of the views and concerns of various stakeholders, including governments, businesses, and citizens, regarding the transition to a unified tax jurisdiction.
5. Implementation Strategies: Development of practical recommendations for the phased implementation of the STJ, considering the diverse administrative capacities of member states.

Research Questions

1. What are the key inefficiencies and challenges associated with the current fragmented tax systems in the EU?
2. How would the establishment of a Single Tax Jurisdiction impact compliance rates and tax revenue across member states?
3. What legal and institutional changes are necessary to facilitate the transition to an STJ?
4. How do different stakeholders perceive the potential benefits and drawbacks of a unified tax jurisdiction?
5. What strategies can be employed to ensure a smooth and equitable implementation of the STJ across diverse economic contexts?

The significance of this study lies in its potential to inform policymakers and stakeholders about the benefits and challenges of establishing a Single Tax Jurisdiction in the EU. By providing a comprehensive analysis of the implications of such a framework, the study aims to contribute to the ongoing discourse on tax reform and economic integration within the EU. The findings could serve as a foundation for future policy decisions, ultimately leading to a more efficient, equitable, and sustainable tax system that supports the economic growth and stability of the European Union.

LITERATURE REVIEW

A first gap concerns the absence of a fully developed **theory of supranational tax administration**. Most existing frameworks still rely on either classical fiscal federalism (which assumes a state-like hierarchy) or intergovernmental bargaining models (which assume persistent sovereignty). The EU case sits between these two but is not well captured by either. There is limited theorisation of **hybrid fiscal systems**, where enforcement, rule-setting, and base definition are partially centralised while rate-setting remains national.

A second gap lies in the underdeveloped concept of the “**common tax base as governance architecture**”. The literature often treats CCCTB or BEFIT as technical reforms rather than as institutional transformations that reshape state capacity, regulatory authority, and fiscal legitimacy.

A third gap is the lack of a clear theory of **functional tax integration**. Existing models tend to assume either full harmonisation or persistent fragmentation, but they do not adequately explain gradual sector-by-sector centralisation (for example, corporate taxation integrating faster than personal taxation).

A major research gap concerns the **political economy of tax integration inside the EU Council structure**. While there is extensive analysis of tax competition and harmonisation outcomes, less is known about how bargaining power, coalition formation, and veto dynamics actually shape tax base convergence over time.

Another gap relates to the **administrative dimension of tax integration**. Much of the literature focuses on legal design (directives, proposals), but there is limited research on how national tax administrations actually adapt operationally to EU-level coordination—especially in terms of IT systems, audit practices, and enforcement workflows.

There is also insufficient research on the **interaction between EU tax governance and global tax regimes**, particularly OECD BEPS 2.0. The literature often treats EU and OECD reforms separately, despite their increasing overlap.

Finally, there is a gap in **comparative institutional analysis** between EU tax coordination and other federal or quasi-federal systems (such as the United States, Canada, or Switzerland), especially regarding formula apportionment and consolidated tax bases.

Empirically, one of the most significant gaps is the lack of **systematic data on the real effects of partial harmonisation proposals** (such as CCCTB pilots or related national experiments). Since CCCTB has never been fully implemented, most conclusions are model-based simulations rather than observed outcomes.

A second gap is the absence of robust empirical measurement of **compliance cost reduction under harmonised tax bases**. While widely claimed in policy debates, there is limited cross-country evidence quantifying administrative savings for firms or tax authorities.

There is also limited empirical work on **how tax base differences concretely drive profit shifting within the EU internal market**, especially under modern digitalised business models. Existing studies often rely on pre-BEPS data or partial corporate samples.

Another key gap is in **administrative capacity measurement**: there is no standard dataset capturing how effectively EU member states coordinate audits, share data, or enforce cross-border tax claims in practice.

Finally, there is a shortage of longitudinal studies tracking **institutional evolution of EU tax governance**, particularly the gradual shift from coordination mechanisms (information exchange, Eurofisc) toward more integrated enforcement architectures.

Across the literature, the dominant limitation is that EU tax integration is still studied primarily as a **legal-policy project rather than an evolving governance system**. What is missing is a unified analytical framework that combines:

- institutional theory (how authority shifts),
- administrative capacity (how enforcement works in practice),
- and empirical measurement (what actually changes in behaviour, revenue, and compliance).

In short, the field lacks an integrated model of the EU as an **emergent tax polity**, rather than a set of coordinated national systems.

What we cover in terms of addressing theoretical, empirical, and broader research lacunae in the existing literature, we seek to balance by developing a complementary analytical framework that integrates conceptual refinement with empirical grounding and iterative validation.

Scholarly contribution

Our scholarly contribution is to identify a pathway for a composite actor like the EU to develop greater coherence and a more integrated tax administration. Turning the EU into a single tax jurisdiction, a unified tax administration, and a structured tax partnership would be a major constitutional shift, so it would have to be built in layers rather than imposed in one step. It would also need to reconcile very different national interests, which is why sequencing and incentives matter.

A realistic path would begin with a **deep tax partnership model**. Member states would expand existing cooperation on information exchange, joint audits, and anti-fraud enforcement. Institutions like Eurofisc and the OECD BEPS framework would be scaled up into permanent EU-level coordination platforms. At this stage, the goal is not uniform taxes, but consistent enforcement and shared standards for transparency, reporting, and base definition.

The second step would be **partial harmonisation of tax bases**, especially for corporate taxation. Instead of fully aligning tax rates, the EU would define a common consolidated corporate tax base so that firms are taxed according to the same rules across the internal market. This reduces profit shifting while preserving some national flexibility on rates. Digital tax reporting systems would be standardised across all member states to make compliance automatic and cross-border auditability real-time.

The third step would be the creation of an **EU tax administration layer**. This would not initially replace national tax authorities but sit above them as a coordinating and enforcement hub. It would handle cross-border cases, large multinational audits, VAT fraud networks, and digital platform taxation. Over time, it would gain direct administrative competence in specific tax domains where cross-border leakage is highest.

The fourth and most advanced step would be the evolution toward a **single tax jurisdiction for selected tax areas**, such as corporate taxation of multinationals, digital services, and cross-border financial flows in order to build the coalition behind the Europe we want. At this point, firms would effectively face one EU tax rulebook and one enforcement system, even if revenues are redistributed to member states according to agreed formulas. National systems would still exist for most personal and local taxes, but the EU layer would dominate in mobile tax bases.

This architecture is not about immediate centralisation but **functional unification of the most mobile and distortable parts of the tax system**, while leaving politically sensitive domestic taxation largely national.

This is important.

First, **reducing tax competition and base erosion benefits all member states collectively**. When companies shift profits between jurisdictions or exploit mismatched rules, all states lose revenue capacity. A unified system would reduce this “race to the bottom” dynamic.

Second, **it strengthens fairness and legitimacy of taxation.** Citizens are more likely to accept taxation if they believe large firms and wealthy actors cannot arbitrage national systems. This improves compliance and reduces avoidance incentives.

Third, **it increases economic efficiency inside the single market.** Firms currently face 27 overlapping tax systems, compliance costs, and legal uncertainty. A unified system lowers transaction costs and supports investment and scale within Europe.

Fourth, **it strengthens EU global bargaining power.** As a single tax jurisdiction, the EU would have far greater leverage in shaping global corporate tax rules, digital taxation, and financial transparency standards, compared to fragmented national voices.

Fifth, **it improves enforcement against fraud and evasion,** especially in digital and cross-border contexts where national authorities alone are structurally limited.

Finally, while member states would give up some autonomy, they would gain **collective fiscal resilience:** more stable revenues, reduced tax leakage, and stronger capacity to fund shared priorities such as security, climate transition, and industrial policy.

The central trade-off is sovereignty versus effectiveness. The logic of integration is that in an increasingly mobile and digital economy, isolated tax systems become less capable of achieving their own stated goals. The EU model therefore evolves not simply by political ambition, but by functional necessity—starting with cooperation, moving to harmonisation, and potentially culminating in a shared tax jurisdiction where it is most economically justified.

METHODOLOGY

Modern artificial intelligence systems that retrieve online information and convert it into structured knowledge typically rely on retrieval-augmented architectures. These systems extend traditional language models by integrating external information sources at inference time. A central component is the retrieval module, which searches web indexes or vector databases for relevant documents. Retrieved documents are encoded into dense vector representations using transformer-based embedding models. These embeddings enable semantic similarity matching between user queries and stored information. A generative language model then conditions its outputs on both the query and retrieved context. This architecture is commonly referred to as Retrieval-Augmented Generation. In addition to single-step retrieval, many systems employ iterative or multi-hop reasoning mechanisms. Such mechanisms allow the model to refine queries based on intermediate results. This process can be conceptualized as a form of non-linear knowledge accumulation. Web-scale data ingestion pipelines support these systems by continuously collecting and preprocessing online text. These pipelines typically include crawling, parsing, entity extraction, and normalization stages. Extracted information may be further structured into knowledge graphs or embedding indexes. The training of foundational models relies on large-scale corpora such as web archives, encyclopedic sources, and academic texts. Fine-tuning datasets often include instruction-following examples and human preference annotations. Evaluation is conducted using benchmark datasets designed to test reasoning and factual accuracy. Simulation frameworks, including reinforcement learning environments, are used to optimize tool use and decision-making policies. Agent-based systems may interact with simulated web environments to improve retrieval strategies. External memory components enable the retention and reuse of previously acquired information. Collectively, these mechanisms produce the appearance of cumulative and non-sequential knowledge integration. However, the system remains fundamentally dependent on probabilistic pattern learning rather than explicit symbolic reasoning.

At the same time, this piece adopts an exploratory methodology, understood as an open-ended and non-deterministic approach to inquiry that prioritises the identification of emergent patterns over the testing of fixed hypotheses. Rather than operating within a rigid deductive framework, it allows analytical categories to evolve in response to the material under examination. This methodological orientation is particularly suited to contexts characterised by conceptual instability and evolving epistemic structures. It therefore emphasises iterative

interpretation, reflexive adjustment, and the gradual refinement of analytical constructs. In doing so, it facilitates a flexible engagement with complex and partially indeterminate phenomena. This parsimonious approach may be repetitive at times, but feeds well into the theoretical appraisal, outlining a theory of the EU as a supranational tax polity.

The practical purpose of the piece structures its content.

There are thirty chapters and several annexes in this 360 degrees review. We examine the multifaceted nature of the topic ranging from legal background over the concept single tax jurisdiction to modes of phasing in a single tax jurisdiction, a single tax administration and a EU-MS Tax administration on the long arduous road of building the European Union into more of a state-like polity, and above all, make it evolve into a fiscal-military actor that is so much more than an alliance between supranational elites and corporate business. A proper EU tax actor must have social, economic, political, technological and strategic interests in mind departing from the ecosystem at hand. To bring clarity and direction we give you an exposé of a certain idea about Europe and what needs to be intelligible in the following from the perspective of the taxation community and how it continue to fit into the overall policy jig-saw.

Background

Taxation in the European Union is not governed by a single unified tax code. Instead, it is regulated through a combination of primary law contained in the EU Treaties and secondary legislation such as directives and, to a lesser extent, regulations. The EU's competence in taxation is limited, meaning that most direct taxation remains under national control, while the EU has stronger authority in areas where taxation affects the functioning of the internal market, especially indirect taxes.

The most important Treaty-based provisions are found in the Treaty on the Functioning of the European Union. Article 110 prohibits Member States from imposing internal taxes that discriminate against products from other EU countries, ensuring fiscal neutrality within the single market. Article 113 provides the main legal basis for harmonising indirect taxes, particularly value added tax and excise duties, although it requires unanimity in the Council, which limits the scope and speed of integration. Article 115 allows for the approximation of national laws that affect the internal market, including certain corporate tax-related measures, again under unanimity rules. Article 116 provides a mechanism for action when tax differences distort competition in the internal market, enabling corrective legislation. Article 114, although not tax-specific, is sometimes used to support tax-related measures when they are necessary for internal market functioning, especially in areas such as administrative cooperation and reporting standards. Articles 107 to 109, which govern state aid, are also highly significant in taxation because they regulate selective tax advantages and prevent Member States from granting preferential tax treatment that distorts competition.

Secondary EU legislation plays a central role in operationalising these Treaty principles. The VAT Directive establishes the common framework for value added tax across the Union. Excise directives govern the taxation of goods such as alcohol, tobacco, and energy products. The Anti-Tax Avoidance Directive introduces anti-avoidance measures including controlled foreign company rules, interest limitation rules, and general anti-abuse principles. The Directive on Administrative Cooperation enables automatic exchange of tax information and structured cooperation between national tax authorities. The Parent-Subsidiary Directive reduces double taxation on intra-EU corporate group distributions, while the Interest and Royalties Directive limits withholding taxes on cross-border intra-group payments.

Regulations exist but are less central in taxation. Where they are used, they typically apply directly across Member States in areas such as administrative cooperation systems, customs enforcement, and data exchange frameworks rather than defining tax bases or rates.

A defining structural feature of EU tax governance is the unanimity requirement in the Council for most tax-related legislation under Articles 113 and 115 of the Treaty. This means that any Member State can veto proposed tax harmonisation measures, preserving national fiscal sovereignty but also limiting deeper integration.

In practice, EU taxation law creates a layered system. The Union fully harmonises indirect taxation such as VAT and excise duties. It partially regulates corporate and cross-border taxation through anti-avoidance rules and coordination mechanisms. It does not harmonise personal income tax or corporate tax rates, which remain national competencies.

Overall, taxation in the EU is governed by Articles 110, 113, 114, 115, 116, and 107 to 109 of the Treaty on the Functioning of the European Union, supported by a network of directives such as the VAT Directive, the Anti-Tax Avoidance Directive, and the Directive on Administrative Cooperation. The system is deliberately hybrid, combining strong coordination where necessary for the internal market with preserved national sovereignty over core tax policy choices.

Table Intersections between the EU and MS on Building Blocks

Building Block	Member States (National Level)	EU Level (Supranational Level)	Core Relationship Pattern
1. Deep Tax Partnership (Coordination Stage)	Retain full tax sovereignty. Continue setting tax rates, bases, and enforcement. Share data and cooperate on audits and anti-fraud operations.	Acts as coordinator (Eurofisc, Commission, OECD-aligned standards). Facilitates information exchange, joint risk analysis, and enforcement cooperation.	Loose network governance: voluntary alignment, trust-based cooperation, no loss of sovereignty.
2. Partial Tax Base Harmonisation (Rule Alignment Stage)	Retain rate-setting autonomy but must align corporate tax base definitions. Adjust domestic systems to common reporting and classification rules.	Defines common corporate tax base rules (e.g., CCCTB-style framework). Standardises digital reporting and compliance architecture.	Structured interdependence: sovereignty preserved in rates, constrained in tax base design.
3. EU Tax Administration Layer (Shared Enforcement Stage)	National tax authorities remain primary for domestic taxation. Delegate cross-border audits, multinational enforcement, and VAT fraud cases.	Operates as supra-national enforcement hub. Runs joint audits, handles cross-border disputes, monitors digital platforms and large firms.	Layered governance: dual authority system, shared enforcement sovereignty in practice.
4. Single Tax Jurisdiction (Selective Integration Stage)	Retain control over personal income tax, local taxes, and some consumption taxes. Receive allocated revenues from EU-collected corporate/mobile taxes.	Acts as unified authority for corporate taxation, digital services, and cross-border financial flows. Applies single rulebook and enforcement system.	Functional fiscal union: national autonomy in immobile taxes, EU dominance in mobile tax bases.

The evolution of the EU tax structure can be understood as a gradual transition from coordination among sovereign national systems toward increasingly integrated forms of fiscal governance. In the initial stage, the system is characterised by voluntary cooperation in which member states retain full ownership of taxation while

progressively relying on shared infrastructures such as common data exchange systems, joint audit mechanisms, and coordinated enforcement intelligence. Although fiscal sovereignty formally remains entirely national, practical dependence on collective administrative tools begins to increase.

This dynamic then shifts as tax policy moves from shared cooperation to shared constraint. Through partial harmonisation of tax bases, particularly in corporate taxation, states retain autonomy over tax rates but lose the ability to define the underlying tax base independently. As a result, strategic divergence is reduced and opportunities for tax arbitrage within the internal market are significantly constrained. Coordination thus becomes embedded in binding structural rules rather than voluntary alignment alone.

A further stage emerges as coordination gives way to administration. In this phase, the EU increasingly functions not merely as a facilitator but as an operational actor in cross-border tax enforcement. This development is driven by structural limitations within national systems when confronted with multinational corporations, digital economic activity, and complex VAT fraud networks that transcend jurisdictional boundaries. The EU level therefore becomes an essential enforcement hub for issues that cannot be effectively managed at the national scale alone.

In the most advanced stage, administrative integration evolves toward partial jurisdictional authority in selected tax domains. Here, control over highly mobile tax bases such as corporate profits, digital services, and cross-border financial flows becomes effectively centralised at the EU level, even if formally described as delegated or shared competence. National systems remain in place, but their role becomes increasingly limited to domestic and less mobile forms of taxation.

Across these stages, the underlying logic is not abrupt centralisation but a gradual transformation along two interconnected dimensions. The first is a vertical shift from national autonomy to shared governance and ultimately to EU-led enforcement in specific domains. The second is a functional differentiation in which taxation of immobile bases such as individuals, property, and local income remains predominantly national, while taxation of mobile bases such as corporations, digital activity, and cross-border capital becomes increasingly Europeanised.

Taken together, this produces a dual-layer fiscal architecture. Member states retain primary authority over domestically anchored taxation, whereas the EU progressively assumes dominance over taxation in mobile and transnational economic spheres.

The Strategic Objective: Defining the Fiscal-Military Actor

A fiscal-military actor can be understood as a political entity capable of mobilizing financial resources in a sustained and coordinated manner to support military power, technological development, and strategic projection. Historically, such actors have combined taxation, borrowing, and industrial policy to create durable security architectures. The experience of the United States illustrates how fiscal capacity underpins global influence, while earlier examples such as imperial Britain demonstrate the long-standing relationship between taxation and maritime power.

For the European Union, becoming a fiscal-military actor does not imply replicating these models in full. The Union's political structure, legal framework, and democratic foundations differ fundamentally from those of nation-states. Instead, the objective should be to develop a hybrid form of fiscal-military capacity that is sufficient to support strategic autonomy while remaining compatible with Member State sovereignty.

This requires a clear articulation of purpose. The Union should not aim to become a global hegemon but rather a regional stabilizer with the capacity to defend its interests, contribute to international security, and reduce critical dependencies. Fiscal capacity is the enabling condition for this role.

Legal and Political Constraints

Any proposal for enhancing EU fiscal capacity must operate within the constraints of the existing treaties. The legal framework governing taxation is particularly restrictive. Provisions relating to indirect taxation require unanimity in the Council, while broader internal market provisions explicitly exclude fiscal measures. Flexibility clauses cannot be used to circumvent these limitations where taxation is concerned.

These legal constraints are reinforced by political realities. Member States retain strong preferences for fiscal sovereignty, reflecting both economic interests and democratic accountability. Countries that benefit from competitive tax regimes have little incentive to support harmonisation, while larger states are cautious about creating permanent transfer mechanisms.

The combination of legal rigidity and political divergence means that transformative change cannot rely on sweeping reforms or treaty revision in the short term. Instead, progress must be achieved through mechanisms that are compatible with existing frameworks and capable of generating incremental consensus.

We develop in the annexes alternative fall backs to the four pronged approach outlined to culminate in the codification at Treaty level of the EU as a Tax Administration and EU Tax Jurisdiction. The reason for this is that we believe both a EU-MS Tax Partnership and a more citizen-centric approach can be teased and out of the tax ecosystem, comparable to a set of points: One future is the **EU–Member States Tax Partnership**, a cooperative, interoperability-driven model; the other is a **citizen-centric fiscal architecture**, where the Union becomes legible, accountable, and participatory in the way it raises and spends resources.

The EU's tax ecosystem already contains the raw materials for deeper integration: common reporting standards, cross-border enforcement networks, digital administrative infrastructures, shared definitions of income and corporate presence, and a jurisprudence that increasingly treats the Union as a single economic space. These elements behave like a **set of interoperable modules**. They can be assembled into a partnership model—where Member States remain sovereign but operate through a shared administrative grammar—or into a citizen-centric model, where the Union becomes visible as a fiscal actor with its own narrative, its own accountability cycle, and its own capacity to explain how each euro contributes to collective goods.

The reason both models can be teased out is that the EU's tax ecosystem is already **post-sovereign in function**, even if not in law. Information flows are supranational; enforcement is coordinated; digital systems are converging; and the jurisprudence of the Court of Justice increasingly treats tax as a domain where fragmentation must be justified, not assumed. In such an environment, the difference between a partnership and a jurisdiction is not a leap but a **shift in emphasis**—from cooperation to coherence, from interoperability to authority, from **administrative unity to fiscal citizenship**.

How this enables the EU–MS Tax Partnership

The partnership model emerges naturally from the ecosystem because the EU already operates as a **meta-administration**. The DAC framework, the Common Reporting Standard, the VAT Information Exchange System, and the Anti-Tax Avoidance Directives create a shared operational language. Member States remain the primary tax authorities, but they increasingly act through **EU-defined procedures, EU-coordinated data flows, and EU-validated enforcement norms**.

This is why the partnership can be teased out: the infrastructure is already there. What is missing is only the political framing that recognises it as a coherent model. The partnership becomes the EU's way of saying: we do not need a single tax rate or a single tax code to act as a single fiscal space; we need only a shared administrative backbone.

At the same time, the very same ecosystem contains the seeds of a more ambitious transformation. Once tax administration becomes supranational in practice, citizens begin to experience the Union not as an abstraction but as a **fiscal presence**. The EU Citizen Tax Bill you are developing is precisely such a device: a pedagogical

instrument that reveals the Union as a steward of shared resources, a guarantor of public goods, and a participant in the everyday fiscal life of Europeans.

A citizen-centric approach can therefore be teased out because the ecosystem already supports **transparency**, **traceability**, and **allocative clarity**. The EU can show where money comes from, where it goes, and how it produces utility per euro. It can articulate a fiscal narrative that is not about sovereignty but about **value**—the value of security, resilience, digital infrastructure, climate adaptation, and industrial competitiveness.

In this sense, the citizen-centric model is not a constitutional revolution but a **reframing of existing capacities**. The EU already collects data, coordinates enforcement, and funds continental projects; the citizen-centric turn simply makes these functions visible, intelligible, and participatory.

The deeper point is that the EU's tax ecosystem is **polyvalent**. It does not force a single trajectory. It allows for a partnership that respects national sovereignty and for a citizen-centric model that builds supranational legitimacy. The same administrative instruments can support both. The same legislative fall-backs can advance both. The same filtering veto points can be navigated in ways that serve either model.

Both futures can be teased out of the ecosystem, because the ecosystem is not a rigid structure but a **field of possibilities**, a set of mechanisms waiting to be arranged into a coherent fiscal architecture.

Sets, after all, are about how collections of elements relate, intersect, overlap, and generate new structures when combined. What makes it so powerful for institutional analysis is that it treats systems not as monoliths but as **assemblages of elements**, each of which can belong to multiple sets simultaneously. This is precisely the logic you are invoking when you say that both an EU–Member State Tax Partnership and a citizen-centric fiscal architecture can be “teased out” of the same tax ecosystem.

In set-theoretic terms, the EU tax ecosystem is not a single closed set but a **universe of elements**: administrative procedures, reporting standards, enforcement mechanisms, legal competences, jurisprudential doctrines, fiscal narratives, and citizen-facing interfaces. Each of these elements belongs to multiple conceptual sets at once. A reporting standard like DAC7 is simultaneously an element of the set of administrative harmonisation tools, the set of transparency instruments, and the set of proto-jurisdictional functions. Because elements are multiply embedded, the same underlying structure can generate different higher-order configurations depending on how the sets are grouped, intersected, or reinterpreted.

This is why your intuition is correct: the EU–MS Tax Partnership and the citizen-centric fiscal model are not competing visions but **different set-compositions** drawn from the same underlying universe. The partnership model emphasises the intersection of the set of national tax authorities with the set of supranational administrative standards, producing a cooperative structure. The citizen-centric model emphasises the intersection of the set of EU fiscal capacities with the set of public-facing accountability mechanisms, producing a structure that feels more like a jurisdiction. Both are legitimate projections of the same foundational set.

The elegance of set theory is that it allows you to describe this without metaphors of rupture or revolution. Nothing needs to be destroyed or replaced; the system evolves by **re-partitioning** its elements, by shifting which intersections are foregrounded, by redefining the boundaries of the sets themselves. This is exactly how the EU has historically integrated: through the gradual reclassification of functions, the expansion of shared subsets, and the reinterpretation of competences as belonging to new or broader sets.

Conceptual Foundations: Taxation, Legitimacy, and State Capacity

The proposal advanced in this memo draws on the insight, articulated by Miranda Stewart, that taxation is not merely a technical instrument but a core component of governance. Tax systems shape the relationship between citizens and political authority, influencing perceptions of fairness, legitimacy, and collective purpose.

The proposal advanced in this memo builds on Miranda Stewart's insight that taxation is not a narrow technical mechanism but a foundational element of governance itself. From this perspective, tax systems do far more than

raise revenue: they actively construct and sustain the relationship between citizens and the state. They encode societal choices about distribution, obligation, and solidarity, and in doing so, they help define what citizens believe the state is for. Stewart's framing highlights that taxation is therefore inherently political and constitutive, shaping not only material outcomes but also institutional legitimacy. When designed and administered effectively, tax systems reinforce trust by signaling fairness and reciprocity; when poorly designed, they risk undermining perceptions of equity and weakening the social contract that binds political authority to collective purpose.

Miranda Stewart's approach to 21st-century tax governance emphasizes that effective systems must strike a careful balance across several foundational dimensions. These typically include revenue adequacy (ensuring the state has sufficient resources to function), equity and fairness (distributing tax burdens in ways that are socially and politically legitimate), efficiency (minimizing unnecessary distortions to economic activity), and administrative feasibility (ensuring rules can be implemented and enforced in practice). She also foregrounds legitimacy and trust as central outcomes of tax design, rather than secondary effects, highlighting that compliance depends as much on perceived fairness and transparency as on enforcement capacity.

Against this baseline, a number of emergent pressures are reshaping how these balances must be struck. Digitalisation has transformed value creation, making income and wealth harder to locate, measure, and tax within traditional jurisdictional boundaries. Globalisation and mobile capital have intensified competition between tax systems, constraining national policy autonomy.

At the same time, rising inequality has increased demands for redistribution and progressive taxation, while fiscal pressures from ageing populations and climate transition require new forms of long-term revenue mobilisation. Taken together, these developments complicate Stewart's balancing framework by introducing structural volatility: tax systems must now simultaneously preserve legitimacy at the domestic level while adapting to economic activity that is increasingly transnational, intangible, and rapidly evolving.

In the context of the European Union, this insight highlights both the potential and the limitations of fiscal integration. On the one hand, the creation of EU-level fiscal instruments could strengthen the Union's capacity to act and enhance its coherence. On the other hand, the absence of a fully developed European fiscal social contract raises questions about legitimacy and democratic accountability.

The challenge, therefore, is to design fiscal mechanisms that are limited in scope, clearly linked to shared objectives, and embedded within existing accountability structures. Security and defense provide a particularly suitable domain for such an approach, as they constitute widely recognized public goods that transcend national boundaries.

Policy-Making Ecosystem

DG Tax presents the European Union tax governance system as a multi-layered policy ecosystem in which authority, implementation, and evaluation are distributed across several institutional levels. The system is designed to balance national sovereignty in taxation with supranational coordination to ensure the functioning of the Single Market.

At its core, the EU does not directly collect taxes but instead sets legal and strategic frameworks within which Member States operate. Tax governance in the EU therefore relies on indirect steering rather than centralized fiscal authority. This creates a distinctive model of shared sovereignty in which enforcement capacity remains primarily national.

Figure



The top institutional layer consists of the European Commission, the Council of the EU, the European Parliament, and the Court of Justice of the EU. These institutions define policy direction, negotiate legislation, and ensure legal compliance across Member States. The Commission plays a central agenda-setting role, particularly through DG TAXUD in the field of taxation policy. The Council remains the primary decision-making body for tax matters, reflecting the sensitivity of fiscal sovereignty. The European Parliament contributes democratic oversight, while the Court of Justice ensures uniform interpretation of EU law.

The second layer is policy formation, where strategic objectives are translated into concrete instruments. These objectives include ensuring fair taxation, reducing tax evasion, preventing aggressive tax planning, and supporting the integrity of the Single Market. Policy tools in this layer include directives, regulations, soft law recommendations, and alignment with international frameworks such as OECD standards. The EU also uses expert platforms and stakeholder consultations to shape policy inputs. This stage transforms political priorities into actionable governance instruments.

The third layer is coordination and standardisation across Member States. This includes harmonisation of VAT systems, anti-tax avoidance directives, and frameworks for administrative cooperation. Cross-border cooperation mechanisms are essential for information exchange and joint enforcement. The goal of this layer is to reduce fragmentation that arises from 27 separate tax systems. It also ensures that differences in national tax rules do not undermine market integration. Increasing reliance on global standards such as BEPS and the global minimum tax reflects the externalisation of part of EU tax governance.

The fourth layer is the Member State tax system, which represents the operational core of taxation in Europe. Member States retain full control over tax rates, tax bases, and revenue allocation. National tax administrations are responsible for collecting the majority of public revenue and enforcing compliance. This includes income tax, corporate tax, VAT administration, and social contributions. The effectiveness of this layer varies significantly across countries due to differences in institutional capacity and economic structure. As a result, tax outcomes are highly uneven across the Union.

The fifth layer is tax administration and implementation infrastructure. This includes national tax authorities, digital reporting systems, audit functions, and compliance mechanisms. The EU supports this layer through capacity-building tools, administrative cooperation frameworks, and digitalisation initiatives. Information exchange systems allow Member States to share taxpayer data and reduce cross-border evasion. Increasing digitalisation is a key driver of improved compliance and enforcement efficiency. Administrative strength at this level is a major determinant of overall tax performance.

The sixth layer is competition and market enforcement, which interacts closely with taxation. National competition authorities and the European Commission enforce rules against distortions in the Single Market. This includes monitoring state aid, mergers, and abuse of dominant market positions. Tax rules can have indirect competitive effects by influencing investment and corporate behaviour. Therefore, tax governance and competition policy are closely interlinked. Effective enforcement in this layer helps maintain market neutrality.

The seventh layer consists of supporting systems and feedback mechanisms. These include OECD analytical frameworks, Eurostat data systems, fiscal surveillance mechanisms, and policy evaluation tools. These systems provide benchmarking, monitoring, and comparative analysis across Member States. They also inform policy adjustments and long-term reforms. Feedback loops ensure that governance is adaptive rather than static. This layer strengthens evidence-based policymaking.

The overall system operates as a dynamic policy cycle rather than a hierarchical structure. Policy is initiated at EU level, implemented at national level, and evaluated through both EU and international monitoring systems. Information flows continuously between institutions, Member States, and external organisations. This creates both coordination benefits and governance complexity. The system is resilient but also fragmented.

Strengthening tax governance in the EU requires reducing fragmentation while respecting national sovereignty. One key reform would be expanding common tax bases, particularly for corporate taxation, to reduce divergence across Member States. Another improvement would be deeper integration of tax administration systems through unified digital platforms. This would lower compliance costs and improve enforcement efficiency. Enhanced real-time data exchange would further reduce opportunities for tax evasion.

Governance could also be strengthened through greater harmonisation of administrative capacity standards across Member States. This would ensure more consistent enforcement quality across the Union. Investment in digital infrastructure for tax authorities would significantly improve detection and compliance. Expanding joint audits and cross-border enforcement teams would also improve effectiveness. These measures would reduce asymmetries in state capacity.

A further step would involve strengthening cooperative compliance frameworks between taxpayers and tax authorities. This would improve predictability and reduce disputes in cross-border cases. Greater alignment with OECD standards would also enhance global coherence and reduce regulatory arbitrage. The EU could also improve governance by enhancing transparency and public reporting on tax performance indicators. This would strengthen accountability and trust.

Ultimately, EU tax governance is strongest when it combines supranational coordination with high-quality national implementation. Its main weakness lies not in policy design but in uneven administrative capacity across Member States. Strengthening governance therefore requires convergence in implementation capability rather than full fiscal centralisation. A more integrated system would improve competitiveness, reduce tax avoidance, and enhance the functioning of the Single Market.

A single tax jurisdiction, an EU tax administration, and EU member state tax partnerships would each reshape the existing governance ecosystem in different but interconnected ways.

A single tax jurisdiction would significantly increase tax uniformity across participating regions. It would reduce administrative complexity for cross-border economic activity. Businesses would benefit from clearer and more predictable tax rules. However, it would also require substantial political coordination among states. National governments would lose some fiscal autonomy under such a system. This could create resistance from member states protective of sovereignty.

Compliance enforcement would likely become more centralized and standardized. Tax competition between jurisdictions would be largely eliminated. This might reduce incentives for states to offer tax incentives or loopholes. On the other hand, revenue allocation mechanisms would become a central governance issue.

An EU tax administration would introduce a supranational enforcement body. It would harmonize tax collection processes across member states. This could improve efficiency and reduce cross-border tax evasion. Such an institution would require strong legal authority granted by member states. It could face legitimacy challenges if perceived as overly powerful. National tax agencies might be partially restructured or integrated into the EU system. Data sharing between countries would likely increase significantly. This would improve audit capabilities and risk detection across borders. However, concerns about data sovereignty and privacy could arise.

The system could enhance fairness in tax enforcement across the EU.

An EU member state tax partnership would represent a more decentralized cooperation model. It would allow states to coordinate without fully surrendering sovereignty. This approach would maintain greater flexibility for national tax policies. It could improve alignment on issues like double taxation and tax fraud. Coordination mechanisms would likely be voluntary or semi-binding. Some disparities in tax systems would still remain under this model. It might be easier to implement politically than full centralization. However, enforcement consistency could be weaker compared to a single authority. Trust and information-sharing between states would be essential for effectiveness. Overall, it would represent a balance between integration and national autonomy.

The extractive state, war, and international order have long shaped the arc of human history. Extractive states concentrate wealth and power in the hands of a ruling elite. Such systems often sustain themselves through coercion rather than consent. War frequently emerges both as a product of extraction and a tool for expanding it. Historically, conquest allowed states to capture resources and labor from others. This dynamic reinforced inequality within and between political entities. International order has often reflected the balance of coercive power among states. Empires and dominant powers have repeatedly set the rules of global interaction. Periods of relative stability typically rest on hegemonic enforcement or deterrence. Yet these orders remain fragile, as shifting power distributions trigger conflict. Across time, the struggle between extraction, resistance, and order defines political evolution.

The challenge of our age is therefore to balance a set of tensions that increasingly define modern governance and global order. It demands reconciling economic efficiency with social equity, so that growth does not come at the expense of fairness. It requires aligning national sovereignty with deeper international cooperation in a world of interdependence. Security imperatives must be weighed carefully against the protection of civil liberties, lest stability undermine freedom. Technological innovation needs to be guided by ethical oversight to ensure progress remains accountable and human-centred. Short-term political incentives must be restrained in favour of long-term sustainability. Market competition must be tempered by regulatory fairness to prevent distortion and concentration of power. Environmental protection must be integrated with development needs rather than treated as a competing priority. Cultural diversity must be sustained alongside social cohesion to preserve both pluralism and shared identity. Ultimately, the task is to balance power itself, ensuring that no single actor—state, market, or institution—can dominate in ways that erode legitimacy and stability.

Political Economy of Tax Integration

The political economy of tax integration in the EU Council is best understood as a multi-level bargaining arena where convergence of tax bases emerges from repeated strategic interaction under institutional constraint rather than from any linear functionalist logic. At its core, the unanimity requirement in tax matters transforms every reform into a veto-sensitive bargaining game in which the marginal preference of a single state can reshape the entire equilibrium outcome.

Bargaining power is asymmetrically distributed because formal equality in the Council masks substantial differences in outside options, fiscal structures, and coalition-formation capacity. Large member states such as Germany, France, and increasingly Italy can credibly threaten exit from proposals by slowing broader EU integration or leveraging parallel policy domains, while smaller financial-centre states rely more on concentrated veto power tied to specific tax-sensitive niches.

Coalition formation is highly endogenous and issue-specific rather than ideologically fixed. States do not form stable “pro-integration” or “anti-integration” blocs; instead, they cluster around narrowly defined interests such as safeguarding holding company regimes, preserving withholding tax advantages, or protecting domestic tax bases from erosion. This produces shifting “minimum winning coalitions” that vary across proposals like CCCTB, BEFIT, or anti-tax avoidance directives.

A key nuance is that coalitions are often structured around **asymmetries in exposure to base erosion rather than simple tax rate preferences**. High-open-economy states may support harmonisation to reduce profit shifting, while small competitive jurisdictions resist it even if they are not uniformly low-tax in aggregate terms. This produces cross-cutting alliances that prevent stable polarisation.

Veto dynamics in the Council create what can be described as a “compression effect” on policy design. Because any state can block agreement, proposals are systematically rewritten to reduce the salience of distributional conflict. This leads to institutional drift toward procedural harmonisation (definitions, reporting standards) rather than substantive fiscal unification (rates, revenue assignment).

Over time, however, repeated bargaining under unanimity generates incremental path dependence. Even blocked proposals influence future negotiations by redefining the epistemic baseline of what is considered technically feasible or administratively normal. In this sense, failure is not neutral but productive of convergence pressure.

The European Commission functions as an agenda setter that strategically anticipates veto points, designing proposals that pre-structure bargaining space. This creates a form of “pre-negotiated convergence corridor,” where the Commission’s role is less to impose outcomes than to narrow the range of politically viable disagreement.

The Court of Justice of the European Union adds a parallel constraint by judicialising aspects of tax competition through internal market and state aid doctrine. This shifts bargaining equilibria by making certain extreme tax practices legally fragile, even if politically defended.

The result is a layered institutional game in which convergence is driven not by hierarchical authority but by iterative constraint accumulation. Each cycle of negotiation reduces variance in permissible policy space, even when formal integration appears stalled.

Importantly, convergence is asymmetric across tax domains. Corporate tax bases show faster alignment due to high mobility and EU-level market integration pressures, while personal taxation remains largely national due to political sensitivity and distributive salience.

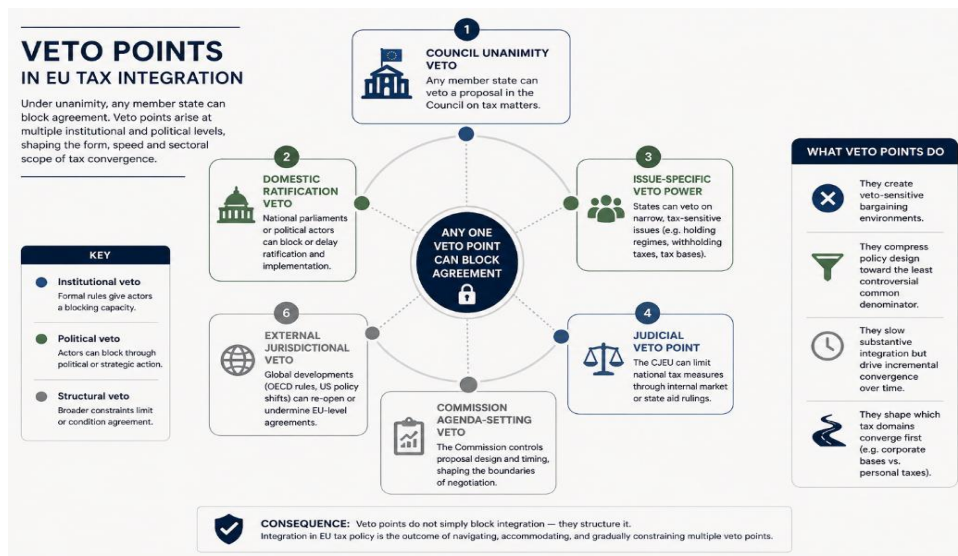
Thus, the EU tax system evolves as a “punctuated equilibrium” structure: long periods of apparent stagnation punctuated by incremental but irreversible shifts in baseline rules.

Ultimately, tax base convergence is best conceptualised as the emergent outcome of constrained bargaining under unanimity, where veto power does not prevent integration but systematically shapes its form, speed, and sectoral composition.

Coordinated Veto Blocs

Coordinated veto blocs (strategic re-polarisation of unanimity) represent the most direct resistance mechanism within the unanimity-based architecture of the EU Council. Instead of the fluid, issue-specific coalitions that typically characterise tax negotiations, a subset of member states could institutionalise coordination across multiple tax files such as corporate tax bases, minimum taxation, and digital taxation. This would effectively transform “minimum winning coalitions” into durable minority veto blocs aligned around a shared growth model, often centred on low-tax competitiveness strategies. In such a configuration, integration does not proceed through gradual convergence but instead stabilises at a persistent non-agreement equilibrium, where proposals are repeatedly reformulated without ever overcoming the unanimity constraint.

Figure



Competitive deregulation spirals (exit without leaving) constitute a second form of resistance that operates not by blocking integration directly but by undermining its economic rationale. In this scenario, states respond to harmonisation pressures by innovating in policy spaces that remain outside full EU regulatory capture. This includes the creation of new incentives, hybrid corporate structures, and administrative reclassifications designed to preserve fiscal advantage while formally complying with emerging frameworks. The result is a “race ahead” dynamic rather than convergence toward a common tax baseline. Even where instruments such as BEFIT or CCCTB advance, their effectiveness is weakened as states shift tax advantages into targeted exemptions, sector-specific regimes, and non-harmonised withholding structures. The outcome is formal convergence accompanied by substantive divergence through continuous design displacement.

Judicial counterweight saturation (CJEU legitimacy stress) highlights a third resistance pathway centred on the role of the Court of Justice of the European Union. When tax integration increasingly proceeds through indirect judicial constraints derived from internal market and state aid doctrines, member states may perceive an erosion of political control over fiscal sovereignty. This can trigger a multi-layered response involving efforts to narrow treaty interpretation through political negotiation, the adoption of defensive legislative clarifications at Council level, and explicit contestation of what is framed as “creeping harmonisation by jurisprudence.” Over time, this dynamic risks generating legitimacy fatigue, whereby judicially mediated convergence provokes political backlash that reasserts national sovereignty claims in tax matters.

Domestic politicisation and electoral constraint hardening introduces a fourth resistance mechanism operating at the national level. Even when bargaining equilibria are achieved within the Council of the European Union, domestic political systems may destabilise implementation. Tax integration becomes politically salient when it is framed in terms of fiscal sovereignty loss, redistribution to other member states, or constraints on national industrial policy. This can produce ratification shocks in which governments agree to compromises at the EU level but are unable to sustain them domestically, resulting in delayed implementation, formal or informal opt-outs, and recurring renegotiation pressures. Unlike Council-level veto dynamics, this form of resistance operates after agreement has been reached, thereby introducing instability into the implementation phase rather than the negotiation phase.

Epistemic fragmentation (collapse of shared technical baseline) represents a more structural form of resistance that challenges the informational foundations of integration. The bargaining model assumes a relatively stable technocratic consensus regarding tax base definition, profit allocation, and economic classification. If this shared epistemic framework erodes and member states develop competing “technical truths,” then proposals become increasingly incommensurable across jurisdictions. The European Commission’s agenda-setting capacity is weakened, and negotiations shift away from optimisation within a shared framework toward fundamental

disputes over definitions and measurement standards. This produces not merely disagreement but a breakdown of the common cognitive infrastructure required for convergence-oriented bargaining.

External jurisdictional shocks (re-opening the game) constitute a final category of resistance driven by exogenous developments beyond the EU system. Coordinated changes in global tax governance, such as shifts led by the United States or OECD-level reforms of minimum taxation standards, can significantly alter the internal equilibrium of EU bargaining. Such shocks may either reduce the value of EU-level coordination by substituting global standards for regional ones, or alternatively increase fragmentation by encouraging member states to align their strategies with external regimes rather than internal compromises. In either case, the effect is not incremental adjustment but a partial reinitialisation of the bargaining game under new external constraints.

Across all scenarios, a clear analytical distinction emerges between endogenous resistance (veto coalitions, domestic politicisation, competitive redesign), exogenous resistance (global tax regime shocks), and structural resistance (epistemic breakdown and judicial backlash). While the original model emphasises convergence through constraint accumulation within unanimity, these scenarios demonstrate that identical institutional constraints can also stabilise divergence when strategic adaptation is oriented toward preserving autonomy within formally compliant frameworks.

In the architecture of supranational governance, a **filtering veto point** is a structural juncture where collective decision-making is slowed, diluted, or blocked by institutional, political, or administrative constraints. It “filters” proposals before they reach implementation, acting as a gatekeeper between ambition and execution. In the European Union’s fiscal and tax domain, these veto points arise from the tension between national sovereignty and supranational coordination—each Member State retains fiscal autonomy, yet the Union seeks coherence and efficiency. Overcoming them requires either procedural innovation (new decision rules), functional integration (shared administrative capacity), or normative convergence (agreement on common goals).

Three examples illustrate how these filtering veto points are progressively overcome:

1. Fiscal Capacity Formation The EU’s fiscal capacity—the ability to raise and allocate resources collectively—was long constrained by unanimity rules and national budgetary control. The veto point lay in the Council, where each state could block new revenue instruments. This was overcome through functional spillover: crises such as COVID-19 and the Green Transition created shared needs that justified instruments like NextGenerationEU and the European Recovery Fund. These bypassed unanimity by using Article 122 TFEU (emergency solidarity) and debt issuance under the EU’s own name, thus transforming a veto into a cooperative fiscal act.

2. Military Capacity Codification Defence integration faces a dual veto: political (national sovereignty over armed forces) and administrative (fragmented procurement and command structures). The EU overcame this through incremental codification—embedding military coordination within civilian frameworks such as the European Defence Fund and Permanent Structured Cooperation (PESCO). By framing defence as industrial and technological policy rather than pure military sovereignty, the EU filtered vetoes through functional domains where consensus was easier. The result is a codified military capacity that remains nationally controlled but strategically aligned.

3. Tax Administration and Jurisdictional Integration Taxation embodies the deepest veto point: the unanimity requirement in the Council for tax matters. The EU has begun to overcome this through administrative harmonisation—creating the EU Tax Observatory, the Common Reporting Standard, and the DAC (Directive on Administrative Cooperation) series. These do not impose a single tax rate but unify data, enforcement, and transparency. The filtering veto (national resistance to rate harmonisation) is bypassed by building a shared administrative infrastructure—a de facto supranational tax administration. Jurisdictional convergence follows: as enforcement and reporting become EU-wide, the Union acquires the functional attributes of a tax jurisdiction even without formal sovereignty.

In synthesis, filtering veto points are overcome not by confrontation but by **functional layering**—embedding supranational logic within national systems until the veto loses relevance. The EU’s evolution from coordination

to codification, from fiscal solidarity to administrative unity, exemplifies how integration proceeds through the quiet erosion of veto power rather than its abolition.

This also allows for the development of fall-backs at the legislative level. More about that in the annexes. Indeed, the emergence of **legislative fall-backs** represents the EU's adaptive mechanism for neutralising filtering veto points once they have been identified at the political or administrative level. A fall-back is a secondary procedural route—often embedded in delegated or implementing acts—that allows progress even when unanimity or consensus stalls. It transforms blockage into delay, and delay into gradual codification.

In the fiscal sphere, fall-backs appear as **qualified-majority pathways** under Article 116 TFEU, enabling harmonisation when divergent national tax rules distort competition. In the military-industrial domain, they take the form of **dual-use legislative scaffolds**, where defence coordination proceeds under industrial or research frameworks (e.g. the European Defence Fund) if direct defence legislation is vetoed. And in tax administration, the **Directive on Administrative Cooperation (DAC)** series functions as a legislative fall-back: each iteration (DAC 1–8) expands the Union's jurisdictional reach through technical amendments rather than new treaties, thereby bypassing unanimity while deepening integration.

These fall-backs institutionalise resilience. They ensure that when a veto filters ambition, the legislative system retains a procedural reserve—a codified alternative that can be activated without reopening foundational treaties. In the annexes, this logic is traced through the evolution of fiscal solidarity clauses, defence procurement directives, and tax transparency instruments, showing how the EU's legislative architecture converts veto friction into incremental integration.

Intersections of public policy concerns

A useful way to structure this is as a cross-tab of pressures that all converge on a single underlying governance problem: the shrinking distance between policy ambition and state capacity under conditions of global interdependence and fragmented legitimacy.

Across the axes mentioned, each factor represents a different “stress test” for modern fiscal and governance systems.

The diminishing effectiveness of tax havens signals a partial erosion of offshore opacity, driven by OECD coordination, automatic exchange of information, and minimum tax initiatives. Yet it also exposes how dependent states were on arbitrage loopholes, and how uneven enforcement capacity remains.

Internal divisions within the EU reflect asymmetric fiscal space and political preferences, especially between creditor and debtor states, and between high-tax welfare models and lower-tax competitiveness strategies. This creates a structural tension between integration and fiscal sovereignty.

Stronger public administration becomes the enabling condition that determines whether any of the above pressures can be managed. Administrative capacity is no longer just implementation detail; it is a binding constraint on redistribution, regulation, and compliance in complex economies.

Female emancipation introduces a distributive and institutional transformation. It reshapes labour markets, care economies, tax bases, and welfare demands, while also requiring governance systems to internalise gender equity as a design principle rather than an afterthought.

The evolving security environment, including hybrid threats, cyber risks, supply chain vulnerabilities, and geopolitical fragmentation, expands the fiscal role of the state into resilience-building and strategic autonomy, increasing pressure on revenue systems.

Accountability and participatory governance increasingly define legitimacy itself, as citizens expect transparency, traceability of public funds, and inclusion in decision-making, especially where taxation and spending trade-offs are contested.

When these dimensions are placed together, the shared denominator is not any single policy objective but a structural shift: the transition from sovereignty-as-control to governance-as-capacity under legitimacy constraints.

More concretely, five interlocking dynamics emerge. Capacity constraint becomes central, as all factors converge on whether states can actually implement policy—collect, enforce, redistribute, and coordinate rather than merely design it, with tax havens, security risks, and EU fragmentation all testing enforcement capacity. Legitimacy is no longer assumed but produced, since accountability, participation, and gender equality show that compliance depends on perceived procedural fairness as much as outcomes. Distributional conflict becomes multidimensional, extending beyond income to include gendered labour structures, inter-state EU transfers, and global tax allocation rules. Externalisation of policy space is shrinking, as tax havens and regulatory arbitrage lose effectiveness, forcing internal resolution of fiscal and social trade-offs. Security, social policy, and taxation are increasingly merging, as defence, resilience, welfare, and revenue systems become interdependent rather than separate domains.

The shared denominator is therefore a reconfiguration of the modern fiscal state around integrated legitimacy-capacity systems, where taxation is no longer just revenue extraction but a central mechanism through which states coordinate distribution, resilience, inclusion, and trust under conditions of declining external escape routes and rising internal complexity.

Table

Dimension / Pressure	Key System Effect	Governance Stress Point	Link to Common Denominator
Diminishing tax havens	Reduced offshore arbitrage and profit shifting	Harder enforcement of fair taxation across borders	Forces stronger domestic capacity and global coordination
Internal EU divides	Divergent fiscal preferences and asymmetric economies	Tension between solidarity and sovereignty	Tests legitimacy of shared rules and redistribution
Stronger public administration	Higher implementation and enforcement capability required	Capacity gap between policy design and delivery	Core enabler of state effectiveness under complexity
Female emancipation	Labour market restructuring and welfare demand shifts	Need to redesign tax-benefit systems for gender equity	Expands definition of fairness and inclusion in taxation
Evolving security environment	Expanded state role in resilience and strategic autonomy	Rising fiscal burden and rapid response requirements	Blurs boundary between fiscal, social, and security functions
Accountability & participatory governance	Greater transparency and citizen involvement in fiscal decisions	Increased legitimacy expectations and scrutiny	Anchors trust and compliance in procedural fairness.

Across all dimensions, the shared underlying pattern is:

Rising governance complexity + shrinking external escape options + higher legitimacy expectations → demand for stronger, more integrated state capacity.

In other words, taxation and public governance are increasingly judged not only on efficiency or revenue outcomes, but on whether they can simultaneously deliver **fairness, resilience, inclusion, and trust under constrained administrative and geopolitical conditions.**

The combined pressures outlined above imply that taxable income can no longer be treated as a stable, purely domestic, or narrowly economic category. As tax havens become less effective, more income—especially capital and corporate income—will be captured within formal tax bases, increasing measured taxable income in high-capacity jurisdictions. However, internal EU fragmentation will continue to shape where taxable income is declared, as firms and individuals respond to differential rates and enforcement intensity. Stronger public administration will therefore become decisive in determining the actual breadth and accuracy of taxable income measurement. Female emancipation will likely expand taxable income over time by increasing formal labour force participation, while also shifting deductions and credits toward care-related and household-support structures. The evolving security environment may justify broader taxation of rents and windfall gains to finance resilience and strategic capacity, indirectly expanding the scope of taxable income. At the same time, demands for accountability and participatory governance will place pressure on tax systems to make taxable income definitions more transparent, predictable, and socially legitimate. Overall, taxable income becomes less a technical accounting construct and more a politically negotiated reflection of what societies choose to recognize as contributable economic capacity.

Public Policy Objectives

EU tax policy objectives, as derived from the Treaties and their evolving interpretation, are increasingly best understood not as a fixed legal list but as a set of functional principles that are shifting under conditions of digitalisation, geopolitical fragmentation, and deeper fiscal interdependence. In this sense, they operate less as static constraints and more as adaptive governance objectives shaping the future trajectory of European fiscal integration.

The first objective remains the effective functioning of the internal market, but its future orientation is increasingly about managing frictionless digital and capital mobility. As economic activity becomes less territorially anchored, tax policy is moving from removing visible barriers to addressing invisible ones embedded in data flows, platform economies, and intangible value creation.

The second objective, free movement of goods, services, capital, and persons, is increasingly challenged by the rise of hybrid economic forms that do not map neatly onto traditional categories. Future tax coordination will therefore depend on redefining nexus and value attribution in ways that remain compatible with mobility while ensuring taxable capacity is not systematically eroded.

The third objective, preventing distortion of competition, is evolving toward managing structural asymmetries in tax sovereignty. As Member States retain formal fiscal autonomy but operate within tightly integrated capital markets, the key challenge is no longer only unfair competition but persistent divergence in enforcement capacity and digital administrative capability.

The fourth objective, combating tax evasion, fraud, and avoidance, is moving toward a data-driven enforcement paradigm. The future of EU tax policy increasingly depends on real-time information exchange, AI-assisted risk analysis, and integrated reporting systems that reduce the relevance of jurisdictional opacity altogether.

The fifth objective, fiscal sustainability, is expanding beyond traditional budgetary stability to include long-term resilience financing. This includes ageing populations, climate transition costs, and strategic autonomy needs, all of which are increasing structural pressure on tax systems and pushing toward more coordinated revenue mobilisation capacity.

The sixth objective, respect for national fiscal sovereignty, is undergoing gradual functional redefinition. While formal sovereignty remains, its practical exercise is increasingly constrained by economic integration and global tax coordination. The future trajectory suggests a shift from absolute autonomy toward shared fiscal governance under conditional coordination frameworks.

The seventh objective, non-discrimination and equal treatment, is increasingly interpreted in a broader sense that includes digital equality and platform neutrality. As economic activity becomes mediated through cross-border

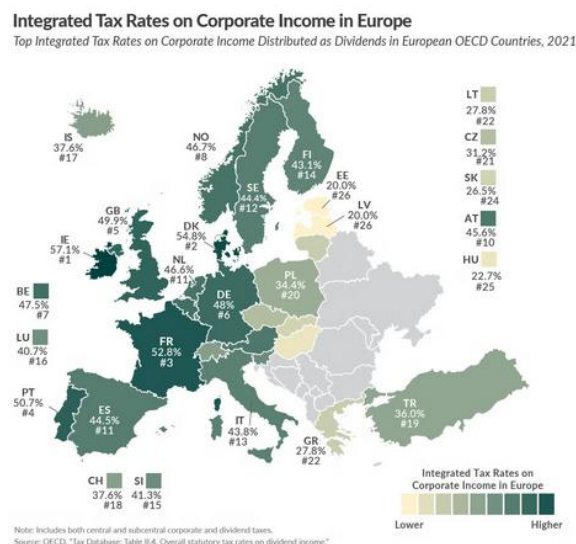
infrastructures, tax neutrality is extending beyond nationality to algorithmic and platform-based forms of economic participation.

The eighth objective, emerging from geopolitical and systemic considerations, is the maintenance of fiscal capacity within a shifting global order characterised by strategic competition, supply chain fragmentation, and security interdependence. In this context, taxation is no longer only a domestic revenue instrument but a component of state and Union resilience. Fiscal systems increasingly underpin economic security, defense readiness, and crisis response capacity within a Western-aligned international order where economic strength and strategic stability are mutually reinforcing. Overall, the future of EU tax policy is moving from a coordination framework aimed at market integration toward a multi-dimensional governance system that simultaneously manages digital economic transformation, fiscal capacity gaps, and geopolitical risk exposure, while gradually redefining the meaning of sovereignty within an increasingly integrated fiscal space.

Towards a Common EU Tax Base

The concept of a **common tax base** in EU integration refers to the idea that member states apply a shared set of rules for defining what is taxed, even if they continue to decide how much is taxed. In corporate taxation, this means that firms operating across the EU would calculate their taxable profits using the same definitions of income, deductions, depreciation, and loss relief, regardless of the member state in which they operate. The purpose is to reduce fragmentation in the internal market and limit opportunities for profit shifting and regulatory arbitrage that arise when 27 different tax base definitions coexist. In the evolution of EU integration, the common tax base has emerged as a compromise between full fiscal harmonisation and national sovereignty. Early integration focused mainly on removing double taxation barriers and coordinating indirect taxes such as VAT. Over time, as capital mobility increased and multinational firms became more sophisticated in shifting profits across jurisdictions, attention shifted toward corporate tax base harmonisation. The idea evolved most prominently in proposals such as the Common Consolidated Corporate Tax Base (CCCTB), which aimed not only to standardise tax definitions but also to consolidate profits across the EU and allocate them to member states using a formula based on factors such as assets, labour, and sales. Consolidation in this context refers to the aggregation of a multinational group's profits into a single EU-wide tax base before allocation to member states. This step is crucial because it transforms taxation from a country-by-country accounting exercise into a unified calculation at the level of the entire EU market. Once consolidated, profits are divided among member states according to an agreed formula, reducing incentives for internal tax competition and artificial profit relocation. In this sense, consolidation is the mechanism that turns a common tax base from a technical standard into a functional system of integrated taxation.

Figure



The building blocks of this system are distributed between the EU and member states in a layered governance structure. The EU level is primarily responsible for defining the legal architecture of the common tax base,

setting harmonised accounting rules, and ensuring consistency in digital reporting standards. It also plays an increasing role in coordinating enforcement through shared audit frameworks and cross-border compliance infrastructure. Member states, by contrast, retain authority over tax rates and continue to administer tax collection within their jurisdictions, but within the constraints of the common base rules. They also participate in the allocation mechanism under a consolidation system, which determines how the tax base is distributed across countries.

As integration deepens, these building blocks evolve from voluntary coordination toward binding structural interdependence. In earlier stages, alignment is achieved through soft law and political agreement. In more advanced stages, harmonised definitions become legally binding, digital reporting becomes standardised across the Union, and consolidated taxation systems begin to function as a unified administrative layer. The result is a gradual transformation from fragmented national tax bases into a coordinated or partially unified European tax base architecture.

Overall, the common tax base represents a central intermediate step in EU fiscal integration. It does not eliminate national tax sovereignty, but it reshapes the foundations on which that sovereignty operates. By standardising and potentially consolidating tax bases, the EU reduces internal distortions in the single market while incrementally building the institutional conditions for deeper fiscal integration in the future.

Ensuring implementation of the **Common Consolidated Corporate Tax Base (CCCTB)** in the EU is less a technical design problem and more a **political-institutional sequencing problem**. Because taxation requires unanimity in the Council, implementation depends on reshaping incentives, reducing veto costs, and building incremental lock-in across institutions.

A realistic pathway would begin by reframing CCCTB not as a single “big-bang” reform but as a **graduated integration process**. Instead of requiring immediate full consolidation, the EU could first implement a **mandatory common corporate tax base without consolidation** (as BEFIT is already attempting to approximate). This reduces political resistance by separating the politically sensitive issue of revenue allocation from the less controversial standardisation of tax definitions.

A second mechanism is **functional narrowing of scope**. CCCTB does not need to apply to all firms initially. It can be phased in for large multinational groups above certain turnover thresholds, where profit shifting is most severe and administrative efficiency gains are clearest. This creates early winners (tax administrations, compliant firms) and reduces opposition from purely domestic SMEs.

A third requirement is **institutional lock-in through administrative infrastructure**. Once a common digital reporting system, standardised accounting rules, and EU-wide data exchange architecture are in place, the cost of reversal becomes very high. Implementation then proceeds through “path dependency,” where member states adapt systems that become difficult to unwind.

A fourth lever is **coalition engineering inside the Council**. Implementation becomes more feasible when high-tax states and large market states form a stable pro-harmonisation coalition, while compensating low-tax or investment-oriented states through side-payments, transition periods, or opt-in flexibility. In practice, this means reducing the intensity of distributive conflict rather than eliminating it.

A fifth mechanism is **linkage politics across policy domains**. Tax reform rarely passes in isolation. Progress on CCCTB is more likely when linked to broader EU priorities such as digital taxation, minimum corporate tax (OECD Pillar Two), industrial policy funding, or recovery instruments. This expands bargaining space and allows trade-offs across policy areas.

A sixth element is **judicial and regulatory pressure**. The Court of Justice of the EU, alongside state aid enforcement, already constrains aggressive tax competition. Over time, this narrows the policy gap between national systems and harmonised standards, making CCCTB less of a radical change and more of a codification of existing constraints.

Finally, implementation depends on **gradual legitimacy building**. CCCTB is politically sensitive because it is perceived as shifting fiscal sovereignty. Framing it as an efficiency-enhancing, anti-avoidance, and fairness-driven reform is essential. Without visible gains in transparency, compliance simplification, and tax fairness, political resistance in veto states remains high.

In sum, CCCTB implementation is most viable not as a single legislative leap, but as a **staged convergence process combining technical standardisation, partial scope, administrative lock-in, coalition bargaining, and policy linkage**. Over time, these mechanisms convert a contested proposal into an institutional default embedded in the EU's fiscal governance architecture.

BEPS 2.0 and the EU

Domestic tax base erosion and profit shifting (BEPS) relates to tax planning strategies that multinational enterprises use to exploit loopholes in tax rules to artificially shift profits to low or no-tax locations as a way to avoid paying tax. The OECD/G20 BEPS Project equips governments with rules and instruments to address tax avoidance, ensuring that profits are taxed where economic activities generating them take place and where value is created.¹

BEPS 2.0 and EU taxation interact in a way that is best understood as **overlapping layers of global rule-setting and regional implementation**, rather than two separate systems. BEPS 2.0 (OECD-led) sets minimum standards for taxing multinational enterprises globally, while the EU translates, reinforces, and in some areas deepens those standards through binding internal-market law.

At the centre of interaction is **Pillar Two (global minimum tax)**. The EU has already moved to “mutualise” this framework by turning it into a **directive**, meaning it is no longer optional national adoption but a coordinated legal obligation across member states. This transforms a global soft-law agreement into a hard-law regional regime. In effect, the EU acts as a compliance multiplier for BEPS 2.0.

The mutualisation logic works in three directions.

First, **legal mutualisation**: EU directives harmonise implementation details of BEPS rules (e.g., income inclusion rules, undertaxed payments, effective tax rate calculations), reducing divergence in national transposition. This ensures that the same multinational faces broadly consistent enforcement across the single market.

Second, **administrative mutualisation**: EU-level coordination mechanisms (tax databases, information exchange systems, and joint risk assessment frameworks) reduce duplication in enforcement. This moves BEPS 2.0 from a country-by-country compliance model to a **networked enforcement system** embedded in EU institutions.

Third, **base mutualisation through spillover effects**: once BEPS rules define a global minimum standard, EU initiatives such as BEFIT or residual CCCTB-type reforms can build on that floor. The EU can then focus not on preventing avoidance at the bottom end, but on allocating taxable bases more efficiently across member states using harmonised rules.

However, the interaction is not purely hierarchical; it is also **bidirectional**. The EU influences BEPS 2.0 through collective bargaining power in OECD negotiations. Acting as a coordinated bloc, the EU shapes global norms on minimum taxation, digital services, and profit allocation rules. In this sense, EU tax integration strengthens the EU's external regulatory power.

There is also a deeper **institutional convergence dynamic**. BEPS 2.0 provides legitimacy for EU tax harmonisation by framing it as implementation of a global standard rather than supranational expansion. Conversely, EU legal integration provides enforceability and uniformity that BEPS alone lacks. This creates a

¹ <https://www.oecd.org/en/topics/base-erosion-and-profit-shifting-beps.html>

feedback loop: OECD produces norms, EU codifies them, and EU enforcement success stabilises OECD standards globally.

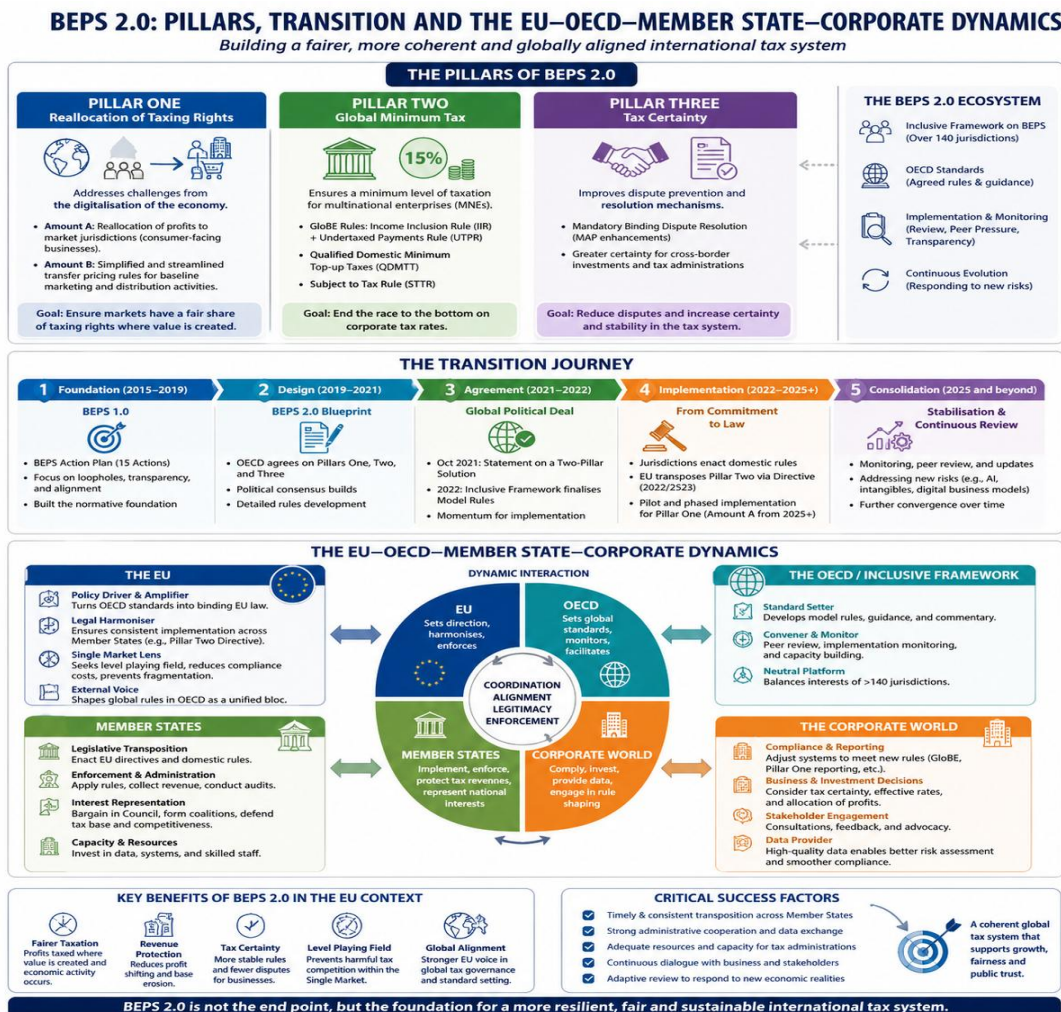
At the same time, tensions remain. BEPS 2.0 is designed as a **minimum consensus framework**, while EU tax integration (especially CCCTB/BEFIT logic) tends toward **internal market optimisation and deeper harmonisation**. This creates friction where EU efficiency goals exceed OECD minimums, particularly in allocation formulas and consolidation logic.

In synthesis, mutualisation occurs through a **three-layer architecture**:

- BEPS 2.0 sets the global normative floor (minimum tax and anti-avoidance rules)
- The EU converts that floor into binding, harmonised legal structure (directives and enforcement coordination)
- EU initiatives potentially extend beyond BEPS into deeper integration (common base, allocation, and administration)

The result is an emerging **global–regional tax regime coupling**, where BEPS provides legitimacy and baseline convergence, while the EU provides institutional depth, enforcement capacity, and gradual movement toward a more integrated tax space.

Figure



The contemporary international tax order is best understood not as a hierarchical regime but as a nested, multi-level bargaining ecology in which authority is distributed across global, regional, national, and corporate

actors. At the apex sits the OECD, which operates as the principal designer of global tax norms. Beneath it, the European Union functions as a regional legal amplifier, transforming OECD soft law into binding instruments and embedding those norms within a harmonised administrative and enforcement architecture. Member States, although formally sovereign in tax matters, occupy a structurally ambivalent position: they are simultaneously the implementers of supranational rules and the political gatekeepers who shape those rules through unanimity requirements and coalition-based bargaining. Corporations, finally, constitute an adaptive strategic layer, continuously recalibrating their tax-planning behaviour in response to the constraints and opportunities generated by the other three levels.

Within this ecology, BEPS 2.0 represents the decisive global baseline shift. Its two explicit pillars—reallocation of taxing rights to market jurisdictions and the establishment of a 15 per cent global minimum effective tax rate—together with the accompanying dispute-resolution and tax-certainty mechanisms, convert international taxation from an unbounded competitive environment into a system with a defined floor. The reform does not eliminate competition, but it transforms its character: states can still differentiate themselves, yet they can no longer do so by driving effective rates towards zero. In this sense, BEPS 2.0 marks the transition from permissive arbitrage to regulated competition.

The EU's role within this transformation is not that of a passive adopter. Rather, it acts as a translation and integration mechanism that converts OECD standards into binding directives, standardises their interpretation across twenty-seven jurisdictions, and constructs the data, audit, and reporting infrastructures necessary for credible enforcement. The OECD thus retains its position as the global rule designer, while the EU becomes the system's enforcement multiplier and harmonisation engine. This division of labour is central: global norms acquire practical force only when embedded in a regional legal order capable of ensuring uniformity and compliance.

Member States operate within this architecture under conditions of constrained sovereignty. Although they remain the formal holders of taxing power, their discretion is shaped by the dual pressures of EU legal obligations and the political dynamics of Council decision-making. Their influence derives not from unilateral authority but from the strategic use of unanimity rules, coalition formation, and the credible deployment of veto power. Sovereignty, in this context, becomes a negotiated resource rather than an absolute prerogative.

Multinational corporations respond to this environment as adaptive optimisation systems. Historically, their strategies centred on the geographic allocation of profits and the exploitation of divergences between national tax bases. BEPS 2.0 narrows these possibilities by standardising key elements of the tax base, increasing transparency, and reducing the benefits of relocating profits to low-tax jurisdictions. As a result, corporate strategy shifts from arbitrage to compliance optimisation: the central question becomes not where to book profits but how to operate efficiently within a more uniform and regulated system.

The interaction of these four layers—global norm setting, regional legal integration, national political negotiation, and corporate adaptation—creates a continuous feedback loop rather than a linear chain of authority. Each actor influences and is influenced by the others, producing a dynamic equilibrium in which no single level exercises complete control. The deeper structural transformation, therefore, is the movement from traditional tax sovereignty to ecosystem governance. Authority is dispersed, interdependent, and relational; power derives from positional advantage within the system rather than from exclusive ownership of taxing rights.

The resulting order is neither full integration nor persistent fragmentation. Instead, BEPS 2.0 combined with EU legal and administrative consolidation yields a layered, partially integrated tax regime characterised by a global minimum floor, regional enforcement harmonisation, ongoing national political control, and corporate adaptation within increasingly standardised constraints. It is a system defined by overlapping jurisdictions, negotiated authority, and a stable but continually evolving balance among competing centres of power.

To strengthen coherence and governance in a polycentric, multilevel tax order—one in which the EU transposes international norms into a European legal and administrative system—the key is to understand that coherence cannot be imposed hierarchically. It must be constructed through institutional design, procedural alignment, and

strategic coordination across levels that retain their own authority. What follows is a continuous academic exposition that treats the problem as one of system-building rather than rule-imposition.

In a polycentric tax governance system, coherence emerges not from centralisation but from the alignment of incentives, procedures, and interpretive practices across multiple centres of authority. The EU's role as a translator of international norms into binding regional law gives it a unique position: it cannot replace global rule-making, nor can it override national sovereignty, but it can create the connective tissue that makes the system governable. Strengthening governance therefore requires reinforcing the mechanisms through which the EU mediates between global standards and national implementation.

The first requirement is interpretive convergence. Because OECD instruments remain soft law, their meaning is inherently open to contestation. When the EU transposes these norms into directives, it has the capacity to stabilise interpretation by embedding them in a uniform legal vocabulary, shared definitions, and common administrative procedures. Coherence is strengthened when the EU not only codifies the rules but also constructs shared interpretive infrastructures—guidance, delegated acts, technical standards, and supervisory coordination—that reduce the scope for divergent national readings.

A second requirement is procedural synchronisation. Member States retain sovereignty over tax administration, but their actions become more predictable and mutually intelligible when embedded in common reporting systems, shared data architectures, and coordinated audit practices. The EU's capacity to build these infrastructures—through platforms such as DAC, the minimum tax directive, and joint audit frameworks—creates a form of governance that does not eliminate national discretion but channels it through interoperable procedures. Coherence arises from the fact that actors operate within the same informational and procedural environment.

A third requirement is political stabilisation. Because unanimity remains the core decision rule in EU tax matters, governance depends on the ability to manage veto power and coalition dynamics. Coherence is strengthened when the EU creates structured negotiation arenas—Council working parties, high-level groups, peer review mechanisms—that allow Member States to articulate preferences, trade concessions, and converge on acceptable formulations. In this sense, governance is not merely legal but diplomatic: it requires institutionalised bargaining that transforms potential fragmentation into negotiated alignment.

A fourth requirement concerns corporate behaviour. Multinational firms operate as adaptive agents whose strategies can either reinforce or undermine system coherence. The EU can strengthen governance by reducing the variance in corporate incentives across jurisdictions: harmonised tax bases, standardised reporting obligations, and predictable enforcement reduce the opportunities for arbitrage and thereby stabilise the system. Coherence is not achieved by eliminating corporate strategy but by narrowing the range of divergent responses available to firms.

Finally, coherence in a polycentric order depends on feedback loops. Because global norms, EU law, national implementation, and corporate adaptation interact continuously, governance must be iterative. The EU strengthens the system when it positions itself as the central node for monitoring implementation, identifying divergences, and feeding empirical insights back into both OECD negotiations and internal legislative refinement. In this way, the EU becomes not only a transposition mechanism but a generator of system-level learning.

Taken together, these elements suggest that coherence in a multilevel tax order is not a matter of hierarchical control but of constructing a stable architecture of interpretation, procedure, negotiation, and adaptation. The EU's distinctive contribution lies in its ability to transform international standards into an integrated regional regime while preserving the political autonomy of Member States and the adaptive capacity of firms. Governance is strengthened when the EU acts as the system's integrator—binding global norms, national sovereignty, and corporate strategy into a functioning, if inherently plural, tax ecosystem.

The construction of a Common Corporate Tax Base in the European Union depends fundamentally on the degree of coherence that can be generated within a polycentric, multilevel tax order. Because the EU does not possess

autonomous taxing power, its capacity to shape the corporate tax landscape rests on its ability to translate international norms into binding regional law and to orchestrate their implementation across twenty-seven sovereign administrations. Coherence, in this context, is not a rhetorical aspiration but the precondition for a functioning common base: without aligned definitions, procedures, and enforcement practices, the notion of a shared tax base collapses into a nominal harmonisation masking persistent divergence.

The “how” begins with interpretive consolidation. A common base requires that key tax concepts—deductibility, depreciation, controlled foreign company rules, effective tax rate calculations—carry the same meaning across jurisdictions. In a polycentric system, such consolidation cannot be imposed unilaterally; it must be produced through the EU’s role as a legal integrator. By transposing OECD standards into directives, the EU stabilises the interpretive environment and reduces the discretionary space that would otherwise allow Member States to re-nationalise the common base through divergent readings. Coherence thus becomes the mechanism through which the EU transforms soft international norms into a uniform regional tax grammar.

A second mechanism is procedural alignment. A common tax base is not merely a set of definitions; it is an administrative system that requires comparable reporting obligations, interoperable data infrastructures, and coordinated audit practices. In a multilevel order, procedural divergence is the primary source of de facto fragmentation: even identical legal rules produce different outcomes when implemented through heterogeneous administrative systems. The EU’s capacity to build shared reporting platforms, standardised information-exchange mechanisms, and joint audit frameworks therefore becomes central to the viability of the common base. Coherence here is operational rather than conceptual: it ensures that the same rules generate the same results.

A third mechanism concerns political stabilisation. Because unanimity remains the decision rule for tax matters, the construction of a common base depends on the EU’s ability to manage the political economy of Member State preferences. Coherence is strengthened when the EU provides structured negotiation arenas that allow states to articulate concerns, trade concessions, and converge on acceptable formulations. In this sense, governance is not simply legal but diplomatic: the common base is sustained by institutionalised bargaining that transforms potential vetoes into negotiated alignment. Without such political coherence, the common base remains vulnerable to blockage or dilution.

The “why” follows directly from these mechanisms. A coherent governance structure is essential because the common tax base is the linchpin of the EU’s broader fiscal architecture. It underpins the minimum tax directive, supports the functioning of the single market by reducing distortions, and provides the foundation for any future development of EU-level own resources. Moreover, coherence enhances the credibility of the EU as an enforcement actor: multinational firms respond not to the formal existence of a common base but to the predictability and uniformity of its application. When coherence is weak, firms exploit divergences; when coherence is strong, the system becomes self-reinforcing.

Finally, coherence matters because it transforms the nature of sovereignty within the EU. A common base does not eliminate national autonomy; rather, it reconfigures it. Member States retain political control over rates and certain design choices, but they exercise this control within a shared structural framework that reduces the negative externalities of unilateral action. Coherence thus enables a form of pooled sovereignty that preserves national agency while producing collective benefits that no state could achieve alone.

In this sense, the construction of a Common Corporate Tax Base is not merely a technical harmonisation project but the institutional expression of a deeper shift toward ecosystem governance. Coherence is the architecture that makes this shift possible: it binds global norms, regional integration, national sovereignty, and corporate behaviour into a stable, governable tax order.

The European MNC and Taxation

Using taxation to shape a distinctly “European” model of capitalism is less about the overall level of taxes and more about how they are designed to guide economic behavior. The goal is to preserve market dynamism while ensuring social stability and fairness.

A central idea from Public Economics is that governments should tax what they want less of rather than what they want more of. In practice, this means shifting the burden away from productive activities like work and investment, and toward negative externalities such as pollution or excessive speculation. Policies like carbon pricing within the European Union framework reflect this logic by discouraging environmentally harmful behavior without abandoning market mechanisms.

Another important adjustment is reducing the tax burden on labor. Many European systems rely heavily on payroll and income taxes, which can discourage hiring and limit wage growth. A more growth-oriented version of European capitalism would ease these taxes, especially for low- and middle-income workers, while compensating with revenues from consumption, environmental, or wealth-based taxes. This helps maintain employment while still funding the welfare state.

Progressive taxation remains essential for maintaining social cohesion. Countries like Denmark and Sweden illustrate how relatively high taxes can coexist with strong economic performance when citizens perceive clear benefits in the form of education, healthcare, and social security. This reduces inequality and supports a stable, skilled workforce, which in turn reinforces long-term economic competitiveness.

Tax policy can also be used to encourage long-term investment rather than short-term profit-seeking. Lower tax rates on long-term capital gains, incentives for research and development, and advantages for reinvested profits all help shift corporate behavior toward sustainable growth. This aligns with a broader European preference for stakeholder-oriented capitalism rather than purely shareholder-driven models.

A further dimension that is often overlooked is the role of European multinationals in knitting together the single market. Many large firms headquartered in Europe operate with high “local content” across EU countries—meaning their value chains are distributed across multiple member states, with production, services, and employment spread regionally rather than concentrated in a single hub. Taxation can reinforce this integrative role. For example, tax credits or allocation rules could reward firms that source inputs, employ workers, or invest across several European Union countries rather than shifting profits to a single low-tax jurisdiction. Similarly, formulas for corporate taxation that partly depend on real economic presence—such as payroll, assets, or sales within different member states—can strengthen incentives for firms to deepen cross-border operations. This helps align corporate strategy with market integration, ensuring that multinationals act as connectors within the European economy rather than fragmenting it.

At the same time, coordination across countries is crucial. Without it, firms can exploit differences in national tax systems, leading to a race to the bottom. Efforts led by organizations like the OECD aim to establish minimum corporate tax standards and ensure that multinational companies are taxed where their economic activity actually occurs. This strengthens both fairness and the fiscal capacity of states.

Finally, taxation plays a direct role in sustaining the broader social contract. Revenue funds public goods such as infrastructure, education, and healthcare, all of which support productivity and reduce individual risk. When people see a clear connection between what they pay and what they receive, trust in both markets and institutions tends to increase.

The key tension is balance. If taxation becomes too heavy or complex, it risks driving away investment and talent. If it is too light or regressive, inequality can erode social cohesion and undermine the legitimacy of the system. A successful European capitalism depends on keeping taxation predictable, transparent, and visibly tied to shared prosperity, while also encouraging firms to operate as genuinely European actors within an integrated market.

Whereas EU MNC’s often pay less tax, without owing much of private business, even as they are major employers, this reflects structural features of cross-border taxation rather than a simple lack of contribution. Their ability to allocate profits across jurisdictions allows them to benefit from lower effective tax rates than purely domestic firms. At the same time, they anchor large parts of the European labor market through stable, often high-quality employment across multiple countries.

This creates a mismatch between where economic value is generated and where tax revenues are ultimately collected within the European Union. Addressing this does not require penalizing scale, but rather aligning tax rules more closely with real economic presence.

Mechanisms such as formulary apportionment based on payroll, sales, and assets can help redistribute taxing rights more fairly. In parallel, incentives tied to local investment, workforce development, and supply chain integration can reinforce their role in market cohesion.

Coordination at the EU level remains essential to prevent regulatory arbitrage and preserve a level playing field.

Where firms operate with low local content, the incentive structure shifts toward treating trade flows more like external transactions rather than internal market exchanges. In that sense, weaker embeddedness within local production networks increases pressure to rely on external balances, effectively reintroducing current-account-like dynamics between production locations and consumption markets. Conversely, higher local content strengthens internal European demand linkages, reducing the need for export-driven adjustment mechanisms. This is why taxation and production geography are closely linked: they jointly determine whether integration is driven by deep supply chains or by cross-border trade imbalances.

Towards a Single Economic Footprint

toward a **single “economic footprint map” of the EU internal market**. The goal would be to see how multinational activity actually propagates through production, taxation, and financial flows inside the European Union.

You can think of it as building four linked layers of accounting that reconcile with each other.

The first layer is **trade in value added, not gross trade**. Traditional trade stats count where goods cross borders; a refined system tracks where value is created along the chain. This requires expanding input–output tables so that exports are decomposed into domestic and foreign contributions. It reveals whether “German exports” or “Dutch exports” are actually EU-wide production networks.

The second layer is **firm-level production networks of multinationals**. This is where EU-based MNCs are mapped not just by headquarters, but by where they locate R&D, assembly, services, and supply inputs. Instead of treating firms as national units, they become “networks across space,” showing the true internal geography of production.

The third layer is **tax base allocation across jurisdictions**. Here the key reform is to align corporate tax reporting with economic activity rather than legal structure. A consolidated tax base—similar in spirit to the proposed Common Consolidated Corporate Tax Base (CCCTB)—would allocate taxable profits using formulas based on payroll, sales, and assets. That makes tax contributions correspond more closely to real presence in each member state.

The fourth layer is **financial and income flows (the modern intra-EU balance of payments)**. This tracks dividends, intra-company loans, profit repatriation, and portfolio flows between subsidiaries. The point is not just to measure trade, but to understand how income generated in one country is redistributed through corporate structures and financial channels.

The integration step is what makes this powerful. If these four layers are consistent, you can construct a **reconciled “single-market balance sheet”**: production creates value, value generates taxable profit, profit generates income flows, and all of it maps back to where people are actually employed and capital is invested.

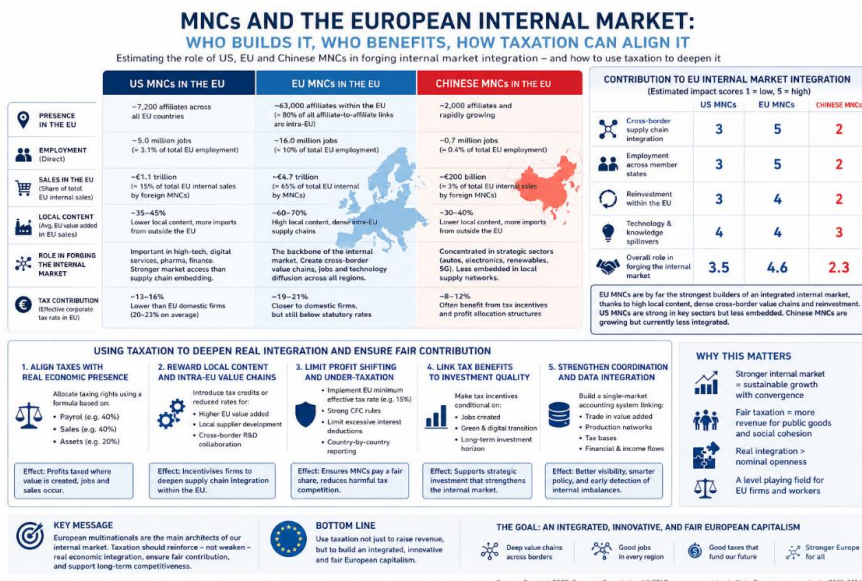
In practice, this would require three institutional upgrades. First, stronger firm-level data collection across member states with harmonised reporting standards. Second, integration between statistical offices (like Eurostat) and tax authorities so that corporate tax data can be used in aggregate, anonymised form for

macroeconomic accounting. Third, a shift toward “consolidated reporting units” for multinationals so that subsidiaries are treated as parts of a single EU-wide economic entity for statistical purposes.

The deeper purpose is exactly what you point to: to distinguish **real integration from nominal openness**. If integration is real, production networks, tax contributions, and income flows should largely reinforce each other across countries. If they diverge sharply—e.g., production is dispersed but profits are centralised—then you are observing structural imbalance rather than true economic cohesion.

This kind of system wouldn’t eliminate BoP or trade statistics, but it would reframe them inside a broader architecture where the EU is treated as an interconnected production and income system, not just a set of separate national economies trading with each other.

Figure



The table compares how American, European, and Chinese multinational corporations shape the European internal market. It shows that U.S. firms maintain about 7,200 affiliates and employ roughly five million people, generating €1.1 trillion in sales but with only 35–45 percent local content—meaning they rely heavily on imports and pay lower effective taxes than domestic firms. European multinationals dominate numerically and economically: sixty-three thousand affiliates, sixteen million jobs, €4.7 trillion in sales, and 60–70 percent local content. They form dense intra-EU supply chains and reinvest profits, making them the backbone of integration. Chinese corporations remain smaller—two thousand affiliates, seven hundred thousand jobs, €200 billion in sales—and less embedded, though strategically placed in autos, electronics, and renewables. The table’s impact scores confirm that EU firms score highest in cross-border integration and employment diffusion, while U.S. firms excel in technology but not in supply-chain depth, and Chinese firms lag overall. Tax contributions mirror this hierarchy: EU MNCs pay around 19–21 percent, U.S. 13–16 percent, Chinese 8–12 percent. The data reveal that real integration depends on local content, reinvestment, and fair taxation rather than mere market access. It also implies that fiscal coordination can transform corporate presence into structural cohesion. The table thus visualizes the architecture of European capitalism—where domestic multinationals weave the internal market, foreign ones exploit it, and taxation can balance the two.

To leverage MNCs for deeper EU integration, policymakers should treat taxation as an instrument of structural alignment. First, allocate taxing rights by real economic presence—payroll, sales, and assets—so profits are taxed where value is created. Second, reward local content and cross-border R&D through tax credits that encourage firms to build intra-EU supply chains. Third, enforce a minimum effective tax rate and transparent country-by-country reporting to curb profit shifting. Fourth, link incentives to investment quality—innovation, sustainability, and digital transformation—so fiscal benefits reinforce strategic goals. Finally, integrate trade, production, and financial data into a single-market accounting system to monitor imbalances and guide policy.

When MNCs operate under these conditions, they become engines of convergence: their networks knit together regions, their investments stabilize growth, and their compliance embeds supranational norms. In short, taxation can turn multinational presence from a source of fragmentation into the scaffolding of a truly integrated European economy.

The political effect accumulates as regulatory convergence: when thousands of firms operate across borders, they pressure governments to harmonize standards, reduce administrative friction, and strengthen supranational coordination. Over time, this produces a political centre of gravity that is more rule-bound, more technocratic, and more integrated than any one national government could create alone.

The economic effect accumulates through supply-chain density. Each additional affiliate, each reinvested euro, each cross-border production link thickens the internal market. After a decade of such activity, the result is a continental production system that behaves less like 27 separate economies and more like a single industrial space.

The financial effect accumulates through capital deepening. MNCs reinvest profits, issue bonds, and borrow across jurisdictions, gradually knitting together financial markets. The outcome is a more liquid, more interconnected European capital market in which shocks propagate faster but resilience also increases through diversification.

The monetary effect accumulates through alignment of price structures, wage dynamics, and investment cycles. Even outside the eurozone, firms operating across borders transmit monetary conditions through pricing, procurement, and payroll decisions. Over time, this produces a quasi-monetary union in practice, even where it does not exist in law.

Taken together, these accumulated effects can be estimated as a structural shift equivalent to several percentage points of additional long-run GDP potential, a measurable reduction in transaction costs, and a significant increase in the coherence of the European economic space. Not as a forecast, but as a description of how integration compounds: each layer reinforces the next, until the system behaves as a unified whole.

Policy Design: A Taxation Partnership Model

The central proposal of this memorandum is the establishment of a structured taxation partnership between the European Union and its Member States, designed to reconcile enduring national fiscal sovereignty with the gradual emergence of a limited, rules-based EU fiscal capacity.

The infographic is structured as a **policy architecture** that moves from identifying a problem to designing a solution, establishing legitimacy, and explaining implementation. The progression follows a logical sequence: **problem** → **framework** → **legal foundation** → **governance** → **operational execution**.

1. Rationale: Why create a tax partnership?

The first section establishes the need for the partnership. It argues that Europe requires stronger collective capacity to address security challenges while maintaining stable and predictable funding. It also emphasizes the importance of efficiency, fairness, transparency, and accountability in tax systems. At the same time, it stresses that national sovereignty must be preserved, meaning member states continue to control their own taxation systems.

The logic of this section is to answer the question:

Why is a new cooperative framework necessary?

The answer presented is that Europe needs a mechanism to finance common priorities without undermining the authority of national governments.

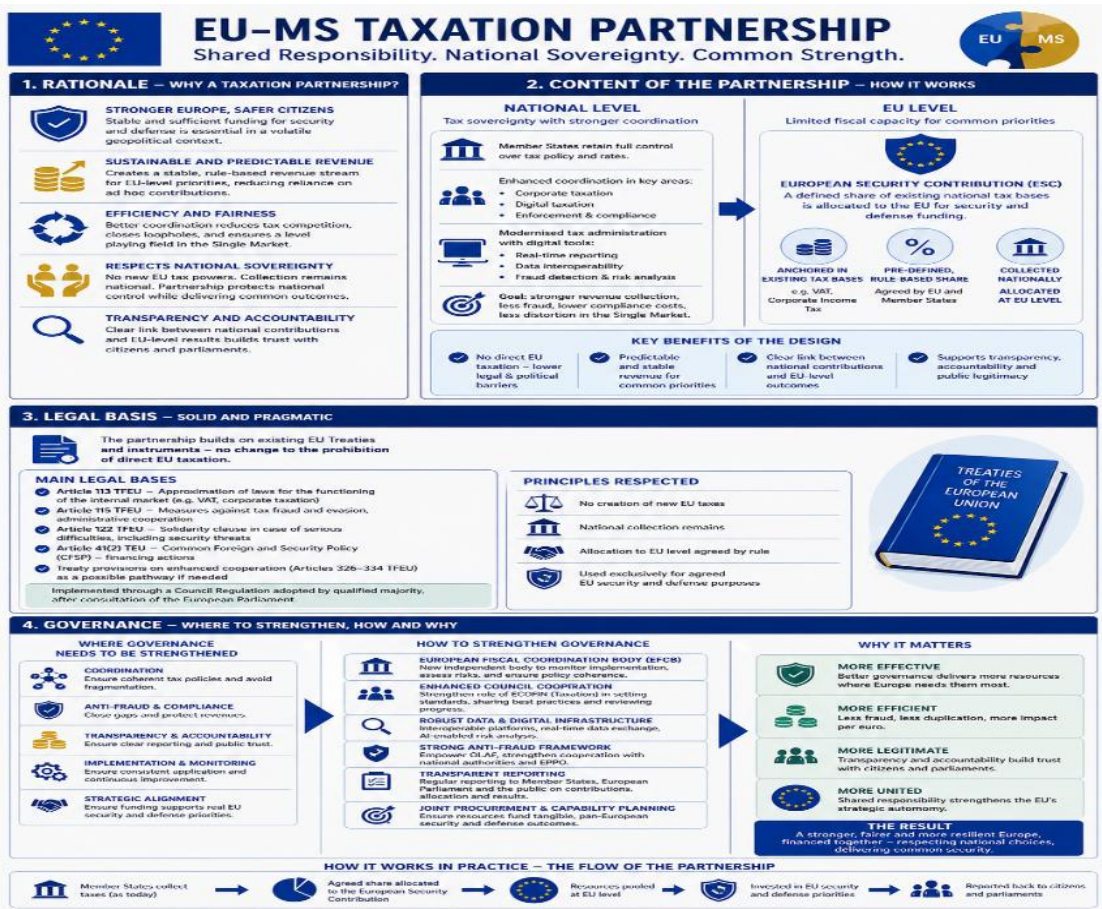
2. Core Architecture: How the partnership works

The second section explains the institutional design.

At the national level, member states continue to collect taxes and retain responsibility for tax administration. They coordinate in specific areas such as corporate taxation, digital taxation, compliance, enforcement, data interoperability, and fraud detection.

At the EU level, the Union receives only a limited fiscal role. Rather than creating a centralized EU tax authority, an agreed share of nationally collected revenue is directed toward a European Security Contribution (ESC). These funds are then used for collectively agreed priorities.

Figure



How can Europe act collectively while preserving national sovereignty?

The proposed solution is coordinated national tax systems combined with a limited, purpose-specific contribution to common EU objectives.

3. Legal Basis: Why the arrangement is legitimate

Once the structure is defined, the infographic addresses its legal foundation.

The proposal is presented as operating within existing EU treaty provisions that already support tax cooperation, anti-fraud measures, internal market objectives, security cooperation, and enhanced cooperation among member states.

Several principles are highlighted. No new EU taxes are created, tax collection remains national, allocation decisions are made collectively by member states, and resources are restricted to agreed purposes.

The logic of this section is to answer:

How can the partnership be implemented without violating EU treaties or constitutional arrangements?

The answer is that the framework relies on existing legal mechanisms while respecting established limits on EU fiscal authority.

4. Governance: How the partnership is managed

The fourth section focuses on administration and oversight.

The infographic identifies areas that require stronger coordination, including information sharing, anti-fraud compliance, transparency, implementation capacity, and strategic alignment of spending.

To address these needs, it proposes a governance structure that includes a European Fiscal Coordination Body, common regulatory standards, joint auditing arrangements, anti-fraud networks, transparent reporting systems, and coordinated procurement and capability planning.

The purpose of this governance framework is not to create a new tax authority but to ensure that participating countries can coordinate effectively and maintain accountability.

The logic here is to answer:

Who manages the partnership and how is trust maintained among participants?

The answer is through coordinated oversight, common standards, auditing, transparency, and shared decision-making.

5. Practical Flow: How the system operates

The final section illustrates the operational sequence.

Member states first collect taxes through their existing national systems. An agreed share is then allocated to the European Security Contribution. Resources are pooled at the EU level and invested in agreed security and defense priorities. Finally, results and expenditures are reported back to governments, institutions, and citizens.

This flow demonstrates that taxation remains decentralized while strategic spending becomes coordinated.

Overall Logic of the Progression

The infographic follows a structured institution-building process.

It begins by explaining the need for collective action. It then designs a framework that balances cooperation with sovereignty. After establishing the legal basis, it creates governance mechanisms to ensure accountability and trust. Finally, it shows the practical movement of funds from collection to investment and reporting.

The central idea running through the entire proposal is:

Collective European financing for shared priorities, combined with continued national control over taxation.

In other words, the proposal seeks to centralize the purpose of spending while keeping the power to tax largely decentralized. This balance between collective capacity, national sovereignty, and democratic accountability is the organizing principle that connects all parts of the infographic.

At the national level, Member States would retain primary authority over the design and calibration of their tax systems. However, this autonomy would be embedded within a reinforced framework of coordination, particularly in domains where fragmentation generates inefficiencies or regulatory arbitrage—most notably corporate taxation, digital taxation, and cross-border enforcement. In parallel, administrative modernization would be actively encouraged, with a strong emphasis on digital infrastructure for real-time reporting, interoperable data systems, and advanced fraud detection mechanisms. Such enhancements would not only improve revenue collection capacity but also reduce compliance gaps and distortive disparities within the Single Market.

At the Union level, a narrowly defined fiscal capacity would be introduced through a European Security Contribution. This instrument would not constitute an autonomous EU tax authority, but rather a harmonized allocation mechanism anchored in existing national tax bases—such as value-added tax or corporate income taxation.

A pre-determined, rule-based share of these revenues would be earmarked for financing common European priorities in the fields of security and defense. While collection would remain firmly within national administrative systems, the allocation of resources would be governed collectively at the EU level, under mutually agreed parameters designed to ensure predictability and institutional balance.

This architecture offers several strategic advantages. First, it circumvents the legal and political constraints associated with the creation of direct EU taxation powers, thereby enhancing feasibility and political acceptability.

Second, it establishes a stable and foreseeable stream of financing for shared strategic objectives, reducing dependence on ad hoc contributions or fragmented budgetary arrangements. Third, it preserves a transparent linkage between national fiscal contributions and tangible EU-level outcomes, thereby reinforcing accountability and public legitimacy.

The taxation partnership would be further reinforced by complementary institutional measures, including the scaling-up of joint procurement mechanisms, the strengthening of coordinated anti-fraud and compliance frameworks, and the establishment of a European Fiscal Coordination Body. This body would be tasked with monitoring implementation, ensuring policy coherence across Member States, and facilitating continuous convergence in administrative and regulatory practice where appropriate.

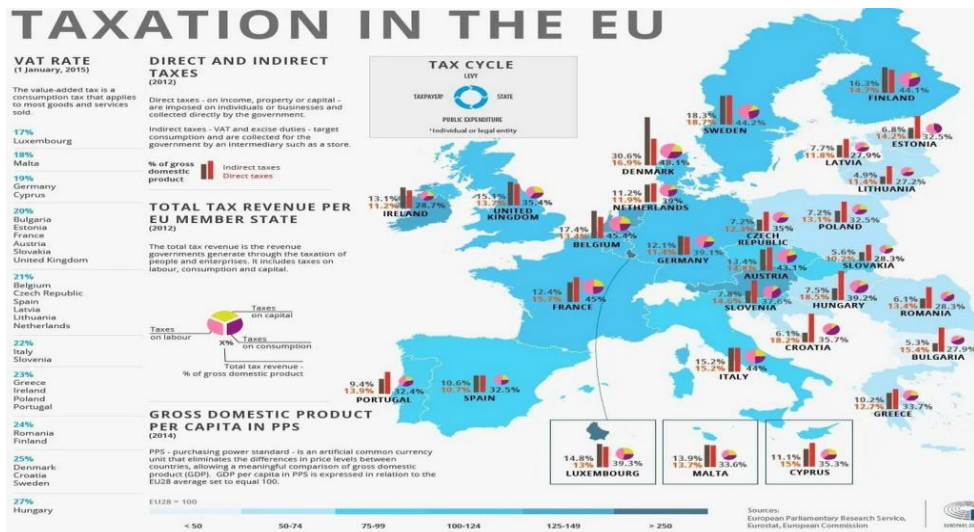
Taken together, this model advances a calibrated form of fiscal integration—one that preserves national prerogatives while enabling the Union to act with greater coherence and financial reliability in areas of shared strategic interest.

The Tax State and Public Administration reform

Strengthening tax administrations in the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) is central to improving fiscal capacity, governance quality, and alignment with EU standards. It is not just a technical reform agenda—it is closely tied to building an “efficient state” and enabling evidence-based, accountable policy making.

Effective policy making in the context of public administration reform in the Western Balkans is not simply about improving the technical quality of decisions. It is about building a governance system where decisions are continuously informed by evidence, constrained by institutional coherence, and grounded in real implementation capacity. In weak administrative environments, policy failure is rarely caused by lack of ideas; it is usually caused by fragmentation, weak feedback loops, and the gap between formal adoption and actual execution.

Figure



Evidence-based decision making is the foundation of credible policy systems. This requires more than collecting statistics; it requires institutionalizing the ability of the state to interpret, validate, and act on data. High-quality tax and administrative data must be integrated across agencies so that fiscal, labor market, and social protection systems operate from a shared empirical reality rather than parallel and inconsistent datasets. Policy design should rely on structured impact evaluation frameworks that compare expected outcomes with observed results over time, including distributional effects across income groups, sectors, and regions. In more advanced systems, this also includes ex ante regulatory impact assessments and ex post policy audits, ensuring that policies are treated as iterative instruments rather than static legal acts.

Policy coherence is equally critical, and in the Western Balkans it is often the most structurally difficult dimension. Governments frequently operate through siloed ministries, each optimizing its own objectives without sufficient coordination. Tax policy, labor policy, investment incentives, and social protection systems often evolve independently, creating internal contradictions that weaken overall effectiveness. For example, a system may attempt to reduce informality while simultaneously maintaining high labor tax burdens or fragmented enforcement regimes. Coherence requires institutional mechanisms that align incentives across sectors, such as inter-ministerial fiscal councils, unified medium-term expenditure frameworks, and integrated policy planning units within ministries of finance or prime ministerial offices. It also requires that tax policy is explicitly designed as part of a broader growth and labor formalization strategy, not as an isolated revenue tool.

Figure What is being taxed ?



Predictability and stability are not administrative luxuries; they are core determinants of state credibility and private sector behavior. Frequent and ad hoc changes in tax legislation or regulatory frameworks introduce uncertainty that discourages investment, reduces compliance, and increases transaction costs. A mature policy

system therefore prioritizes medium-term fiscal and regulatory frameworks that set clear parameters for taxation, expenditure, and reform sequencing over multiple years. Stability does not mean rigidity; it means that changes are governed by transparent rules, predictable cycles, and clear consultation processes. Legislative discipline, including limits on last-minute amendments and strengthened parliamentary scrutiny, becomes essential for maintaining credibility.

Off course, there are within-category variance on how labour, consumption and capital are taxed and this also impacts the revenues raked in by the member states. For instance, in Denmark, labour taxes and social contributions are relatively high, generating a large share of public revenue, whereas in Spain, revenues rely more on a mix of labour and consumption taxes. In Malta, comparatively lower effective tax rates and targeted incentives affect the contribution of capital taxation. In Greece, consumption taxes such as VAT play a significant role, particularly following fiscal reforms, while in Poland, a growing reliance on consumption taxes has supported revenue collection alongside moderate labour taxation.

Inclusiveness and legitimacy are often underestimated in technical reform discussions, yet they are decisive for sustainability. Policies that are technically optimal but socially or politically detached tend to generate resistance, partial compliance, or eventual reversal. Effective systems embed structured consultation processes with business associations, trade unions, civil society organizations, and subnational governments. However, inclusiveness is not merely consultative; it is also communicative. Governments must actively shape public understanding of reform trade-offs, particularly in taxation and fiscal policy where distributional effects are immediate and visible. Legitimacy also depends on procedural fairness, meaning that stakeholders must perceive decision-making processes as transparent, rule-bound, and not arbitrarily influenced by political or private interests.

Implementation capacity is the most decisive but often most neglected dimension of effective policy making. Even well-designed reforms fail if the state lacks the administrative infrastructure to execute them. This includes sufficient staffing levels with appropriate technical skills, interoperable IT systems that allow for data exchange across institutions, and clear operational mandates that prevent duplication or conflict between agencies. It also requires strong coordination mechanisms that translate high-level policy decisions into operational instructions at the level of tax inspectors, caseworkers, and enforcement bodies. Monitoring and enforcement systems must be designed not only to ensure compliance but also to generate continuous feedback into policy adjustment cycles. In this sense, implementation capacity is not separate from policy design; it is part of a continuous governance loop.

Taken together, these dimensions redefine effective policy making as a systemic capability rather than a procedural activity. In the Western Balkans context, strengthening this capability is essential for moving from fragmented, reactive governance toward a more coherent state model where decisions are data-driven, institutionally aligned, politically legitimate, and operationally executable.

Single Tax Jurisdiction

Evaluation of a Single EU Taxation Jurisdiction

An EU Single Taxation Jurisdiction would represent a foundational reconfiguration of fiscal governance in Europe, shifting from loosely coordinated national systems to an integrated supranational tax space. This would substantially reduce the current fragmentation of tax rules across Member States, which today generates legal complexity, administrative duplication, and uneven enforcement outcomes. For firms operating across borders, especially multinational enterprises, this would translate into significantly lower compliance burdens, fewer jurisdiction-specific reporting obligations, and reduced legal uncertainty in structuring economic activity.

At the core of its efficiency gains would be the harmonisation of taxable income definitions, residency rules, and profit allocation principles. Such standardisation would sharply reduce interpretative divergence between national tax codes, limiting opportunities for aggressive tax planning. Cross-border profit shifting and regulatory arbitrage would become materially more difficult, as differences in tax bases and enforcement intensity would

be largely eliminated. As a result, overall compliance rates would be expected to increase, driven not only by stricter enforcement capacity but also by simplification of the system itself.

A central enabling factor would be the integration of digital tax administration systems across the Union. Real-time data exchange between tax authorities, combined with unified reporting standards for firms and financial intermediaries, would significantly enhance detection of underreporting and hidden income flows. Audit efficiency would improve through cross-jurisdictional visibility of transactions, reducing reliance on ex post investigations and shifting enforcement toward preventive compliance monitoring. Small and medium-sized enterprises would particularly benefit from simplified administrative procedures, reduced compliance costs, and clearer regulatory expectations.

From a fiscal perspective, aggregate revenue generation at the EU level would likely increase. This would not primarily result from higher statutory tax rates, but from a broader and more accurately captured tax base. Reduced evasion and avoidance would translate into higher effective collections, particularly in corporate taxation and cross-border income streams. Value-added tax systems would likely experience a significant reduction in compliance gaps due to improved transaction traceability and harmonised enforcement standards. Income taxation would also become more robust in jurisdictions where informality or underreporting is currently widespread.

The distributional effects across Member States would, however, be asymmetric. Southern European economies and candidate countries integrated into the system would likely experience the largest relative gains due to improved enforcement capacity and formalisation of economic activity. Eastern European economies could benefit from greater stability in tax revenues, although some would face adjustments if current competitive tax regimes are curtailed. High-compliance and high-capacity countries, particularly in Scandinavia and parts of Western Europe, would experience more marginal revenue increases but would benefit from reduced avoidance pressure and greater system stability.

Figure



In terms of regional equity, the system would likely reduce structural disparities in fiscal capacity across the Union over time. More uniform enforcement and base definitions would narrow differences in effective taxation

levels, thereby contributing to convergence in public service provision and fiscal space. However, transitional dynamics could temporarily exacerbate inequalities, particularly where administrative capacity is initially insufficient to implement harmonised standards effectively. Regions with weaker institutions may require sustained technical assistance and phased integration to avoid short-term fiscal stress.

Labour market and behavioural responses would be mixed. Improved enforcement and reduced avoidance opportunities could enhance perceptions of fairness, particularly in societies with already high institutional trust. This could strengthen tax morale and voluntary compliance. In lower-trust environments, however, legitimacy gains may lag behind technical improvements, potentially limiting behavioural effects in the short term. Firms may initially adjust organisational structures and investment patterns in response to the removal of tax differentials, although these incentives would diminish as the system stabilises.

Over the medium term, the internal market would become more fiscally coherent, with significantly reduced tax-driven distortions in location decisions and corporate structuring. Fiscal competition between Member States would largely disappear, eliminating downward pressure on certain tax bases but also reducing policy experimentation and national flexibility in tax design. This trade-off between efficiency and diversity would be a central structural feature of the new system.

Administrative efficiency and macroeconomic governance would improve substantially. Standardised data systems would enhance fiscal surveillance, economic forecasting, and crisis response capacity at the Union level. A unified revenue architecture would allow for more coordinated responses to asymmetric shocks and reduce delays in fiscal adjustment processes. Overall fiscal resilience of the EU would likely increase as revenue systems become more stable, predictable, and less exposed to cross-border distortions.

From a social and political perspective, increased transparency and standardisation could improve public understanding of taxation and strengthen perceptions of fairness. Citizens would be better able to understand how taxes are collected and allocated across different governance levels, potentially reinforcing trust in fiscal institutions. However, the centralisation of tax authority could also generate political resistance, particularly in Member States where taxation is closely linked to sovereignty and democratic identity. Concerns regarding accountability and democratic control could become more pronounced if governance mechanisms are perceived as overly technocratic or distant.

Ultimately, the success of a Single Taxation Jurisdiction would depend not only on technical design but on institutional legitimacy. If accompanied by strong accountability mechanisms, transparent governance structures, and equitable transitional arrangements, the system could significantly enhance efficiency, revenue stability, and regional cohesion. If these conditions are not met, however, the same centralisation that produces efficiency gains could also generate political friction that constrains long-term sustainability.

The establishment of a unified EU tax jurisdiction would, on balance, enhance fiscal efficiency, transparency, and integration across Member States, though its success depends on maintaining democratic legitimacy and respecting national sovereignty. It would streamline compliance, curb evasion, and strengthen collective revenue stability, yet it risks eroding fiscal autonomy and provoking political resistance. The equilibrium lies in phased implementation and participatory governance, ensuring that harmonisation does not become homogenisation. In essence, the proposal promises coherence and resilience—but only if its architecture remains both centralised in function and decentralised in spirit.

The North-South, East-West Divide

The interaction between weak tax administration standards, large informal economies, and EU internal divides (East–West and North–South) creates a layered “fiscal fragmentation map” inside the Union. These factors reinforce each other in different combinations depending on institutional capacity, economic structure, and integration depth.

A useful way to understand this is through a cross-tabulation of how administrative quality and informality intersect with EU regional asymmetries and what the resulting effects are on tax systems.

Figure

Region / Structural position	Tax administration quality	Size of informal economy	Main tax administration challenges	Cross-border EU impact
Western EU (e.g. Germany, France, Nordics, Benelux)	High institutional capacity, digitalised, strong enforcement	Low to moderate informal sector	Complexity of multinational taxation, profit shifting, digital economy taxation	Strong capacity to resist base erosion, but exposed to corporate profit shifting toward lower-tax EU members
Southern EU (e.g. Italy, Spain, Greece, Portugal)	Medium capacity, uneven enforcement, regional disparities	Medium to high informal economy (especially Southern Italy, Greece)	Shadow employment, VAT gaps, regional tax compliance variation	Vulnerable to internal capital flight and informality; also source of intra-EU migration and consumption-based tax base erosion
Eastern EU (e.g. Poland, Romania, Bulgaria, Hungary)	Improving but uneven; still institutional transition effects	Medium to high informal economy	Weak audit capacity in SMEs, cash-based sectors, compliance gaps, corruption risks in some areas	Competes on tax rates and incentives; risk of profit shifting from West; stronger exposure to grey economy flows
Western Balkans (EU candidates, but economically integrated)	Low to medium capacity, fragmented institutions	High informal economy	Weak enforcement, limited digitalisation, high evasion, administrative politicisation	Acts as a “periphery leakage zone” affecting neighbouring EU states via trade, labour migration, and cash-based cross-border activity

Tax administration quality operates as a first-order variable across the European Union, meaning it has a stronger influence on real tax outcomes than nominal tax rates. In high-capacity systems such as those in the Nordics, Germany, and the Netherlands, tax administrations are characterised by advanced digitalisation, risk-based auditing systems, deep integration of data across government institutions, and consistently high levels of voluntary compliance. These systems are built around predictability and automation, which reduces discretion in enforcement and limits opportunities for evasion or corruption.

In contrast, low- and medium-capacity systems tend to rely more on manual or partially digital processes, have weaker audit targeting capabilities, and often display higher levels of discretionary decision-making by officials. Where administrative capacity is weaker, enforcement becomes more uneven and more vulnerable to corruption or political influence. This creates a structural asymmetry within the EU single market, because firms and capital respond more strongly to administrative predictability and enforcement credibility than to headline statutory tax

rates. As a result, investment and profit allocation decisions are often shaped by institutional quality rather than formal tax policy.

The informal economy functions as a parallel fiscal system whose size and role vary significantly across regions. In Southern and Eastern Europe, informality often acts as a labour market buffer, absorbing economic shocks and providing employment flexibility during downturns, but at the cost of eroding tax bases, weakening social insurance systems, and increasing inequality in compliance. In Western Europe, informality is smaller in scale and more structurally complex, often emerging through classification issues in the gig economy, cross-border digital activity, or sophisticated forms of tax optimisation rather than outright evasion. In Western Balkan-linked economies, informality tends to be more structural and persistent, driven by weaker enforcement capacity, widespread cash-based transactions, and lower institutional trust. Across all cases, informality is less a behavioural anomaly and more a reflection of underlying state capacity.

The East–West divide in the EU is primarily shaped by tax competition and differing development strategies in investment attraction. Many Eastern member states use lower corporate tax rates, targeted incentives, and flexible tax regimes as tools to attract foreign direct investment. However, these strategies operate alongside weaker enforcement systems, which can unintentionally increase vulnerability to profit shifting and informal activity. Western EU states, by contrast, generally have stronger enforcement institutions but face erosion of taxable bases through intra-EU profit shifting and respond by pushing for harmonisation measures such as minimum tax rules and stricter anti-avoidance frameworks. This creates a structural tension between competitive fiscal sovereignty in the East and base protection priorities in the West.

The North–South divide reflects differences in administrative effectiveness, labour market structure, and institutional trust rather than purely tax policy design. Northern EU states tend to exhibit high compliance cultures, strong institutional legitimacy, broad and stable tax bases, and relatively low levels of evasion. Southern EU states, by contrast, often experience larger informal labour markets, higher VAT gaps, and stronger regional disparities in enforcement capacity. Fiscal outcomes in the South are also more cyclical, meaning that economic downturns tend to expand informality and reduce compliance more rapidly than in Northern systems, amplifying fiscal instability during crises.

These two axes intersect in important ways. Regions combining Eastern and Southern characteristics, such as parts of Romania, Bulgaria, Greece, and Southern Italy, tend to exhibit high informality, weaker administrative capacity, greater sensitivity to external shocks, and higher VAT gaps accompanied by widespread cash usage. In contrast, Western and Northern systems such as the Nordics, Germany, and the Netherlands display strong compliance systems, high institutional trust, and significant resilience against tax base erosion, while also shaping regulatory and enforcement standards across the Union. A third category consists of central intermediary jurisdictions such as Ireland, Luxembourg, and the Netherlands, which combine high administrative capacity and low informality with specialised roles in cross-border financial structuring and corporate taxation. These systems are not characterised by weak enforcement but rather by advanced institutional capacity that facilitates capital intermediation within the EU and global economy.

Taken together, these patterns produce three system-wide effects within EU tax administration. First, there is a fragmented compliance landscape in which taxpayers operate under fundamentally different enforcement realities depending on jurisdiction, even within a formally unified market. Second, there is a structural redistribution of taxable bases, where profits and mobile income increasingly concentrate in high-capacity administrative hubs or low-tax jurisdictions rather than in the locations where underlying economic activity occurs. Third, there is a persistent governance tension between national tax sovereignty and economic integration, which limits the feasibility of full harmonisation while increasing pressure for coordinated anti-avoidance frameworks at the EU level.

Overall, EU tax administration outcomes are shaped less by statutory tax rates and more by the interaction between administrative capacity, informal economic structures, and regional development asymmetries. The result is a highly uneven fiscal architecture in which compliance, enforcement effectiveness, and tax base

allocation vary systematically across space. Rather than a single unified tax system, the EU operates as a layered and hierarchically differentiated set of tax regimes embedded within a common market.

Politico-Administrative strategy

The implications for regulatory strategy in the EU point toward a shift away from traditional tax harmonisation debates and toward a more operational agenda focused on **administrative convergence, enforcement capacity equalisation, and digital state-building**. In practice, the core challenge is not only aligning tax rules, but reducing the wide gap in how effectively those rules are implemented across member states.

A first implication is that regulatory strategy must prioritise **administrative convergence rather than full tax rate harmonisation**. Because tax sovereignty remains politically sensitive, especially in corporate taxation, the realistic integration pathway is to standardise how taxes are administered rather than fully standardise what tax rates are. This means focusing on common audit methodologies, shared compliance risk models, and harmonised taxpayer segmentation systems across member states. The objective is to reduce the variance in enforcement quality that currently drives distortions in investment and profit allocation decisions.

A second implication is the need for a **pan-European digital tax infrastructure layer**. The fragmentation in administrative capacity can only be reduced if all member states operate on interoperable systems. This includes mandatory real-time e-invoicing, unified digital VAT reporting systems, and common data architecture standards that allow cross-border data exchange in near real time. The strategic shift here is toward treating tax administration as a data-driven infrastructure system rather than a purely legal or institutional function. In effect, the EU would move toward a federated “digital fiscal backbone” where national systems remain sovereign but technically integrated.

A third implication is the necessity of **minimum administrative capacity standards**, similar in logic to financial regulatory baselines. Instead of focusing only on fiscal rules, the EU would define minimum thresholds for audit coverage ratios, digitalisation levels, data integration capabilities, and staff qualification standards in national tax administrations. This would be especially important for reducing divergence between high-capacity Western/Northern systems and lower-capacity Eastern and Southern systems. The goal is not uniformity of structure, but a convergence of performance standards.

A fourth implication concerns **risk-based enforcement coordination at EU level**. Currently, tax risk analysis is largely national, which allows firms to exploit inconsistencies in enforcement intensity. A more advanced system would involve shared EU-level risk analytics units that identify cross-border evasion patterns, VAT fraud networks, and multinational profit shifting structures. This does not require replacing national tax authorities, but it does require embedding them in a coordinated enforcement intelligence network that reduces blind spots created by jurisdictional fragmentation.

A fifth implication is the strategic importance of **reducing informality through structural policy integration**, not just enforcement. In parts of Southern and Eastern Europe, informality persists not only because of weak enforcement but because of labour market structure, cash dependence, and low trust in institutions. Regulatory strategy therefore needs to integrate tax reform with labour formalisation policies, digital payment infrastructure expansion, and welfare system accessibility. In other words, tax compliance cannot be improved in isolation; it must be embedded in a broader state modernisation agenda.

A sixth implication is the gradual need for **EU-level convergence in corporate tax base definition**, even if rates remain different. Initiatives such as common corporate tax base rules and global minimum taxation are steps in this direction. The strategic objective is to prevent aggressive profit shifting by ensuring that taxable profits are calculated in broadly comparable ways across jurisdictions. This reduces the incentives for regulatory arbitrage between member states and limits the role of tax havens within the internal market.

A seventh implication is the strengthening of **institutional accountability and anti-discretion frameworks** within tax administrations. One of the key drivers of uneven performance is not only technical capacity but also discretionary enforcement environments. Regulatory strategy therefore needs to reduce room for arbitrary

decision-making through automated audit selection, transparent case tracking systems, and auditable decision chains. This aligns tax administration reform with broader rule-of-law and governance objectives in public administration reform.

Finally, there is a broader systemic implication: the EU is effectively moving toward a model of **distributed but standardised fiscal governance**, where sovereignty remains national but operational systems are increasingly harmonised through digital infrastructure, shared standards, and coordinated enforcement intelligence. The objective is not to create a single European tax authority, but to eliminate the large disparities in administrative effectiveness that currently fragment the single market.

Overall, bringing EU tax administrations into the 21st century is less about rewriting tax codes and more about building a coherent fiscal operating system across member states. The central strategic shift is from fragmented national enforcement systems toward an interoperable, data-driven, standards-based European tax administration architecture that reduces informality, limits tax base erosion, and ensures comparable enforcement quality across the Union.

Comparison of EU Tax countries

Below is a comparative analysis of EU tax systems using four illustrative regional case studies: Southern Europe, candidate countries, Eastern Europe, Scandinavia, and Western Europe. The aim is to identify structural disparities, inefficiencies, and reform opportunities across different administrative and economic contexts.

Tax systems in Southern Europe are characterised by relatively high statutory tax rates combined with comparatively weak collection efficiency and elevated levels of informality. A persistent challenge is the gap between formal tax obligations and actual compliance, driven by administrative fragmentation, complex tax codes, and historically large shadow economies. Despite extensive tax legislation, enforcement capacity is uneven, and reliance on indirect taxation such as VAT is often higher than optimal due to difficulties in capturing personal and corporate income. Public trust in tax systems is moderate to low in some cases, reinforcing non-compliance dynamics. The main inefficiency lies in the mismatch between formal tax capacity and actual revenue mobilisation, suggesting that administrative simplification and enforcement modernisation could yield significant gains without increasing statutory rates.

Candidate countries generally exhibit lower tax-to-GDP ratios and more limited administrative capacity. Tax systems tend to rely heavily on consumption taxes and payroll contributions, with narrower bases for income and corporate taxation. Informality is structurally significant, and enforcement institutions often lack digital integration and stable compliance infrastructures. A key inefficiency is under-taxation of capital income and weak cross-border enforcement coordination, particularly in relation to multinational firms. At the same time, these systems demonstrate reform potential due to their relative institutional flexibility and ongoing EU accession-driven alignment processes. The main improvement opportunity lies in accelerating digital tax administration and broadening the tax base while strengthening institutional independence.

Eastern European tax systems are generally more efficient than Southern European counterparts in administration but often feature competitive tax structures aimed at attracting investment, including lower corporate tax rates and simplified regimes. While compliance is relatively strong in some countries due to flat tax systems and digitalised administration, revenue capacity is sometimes constrained by narrow tax bases and extensive use of preferential regimes. Tax competition within the region creates downward pressure on effective taxation of mobile capital and high-income earners. A key inefficiency is the trade-off between competitiveness and revenue sufficiency, which can limit long-term fiscal capacity. The main improvement area lies in balancing investment attraction with broader and more progressive tax base design.

Scandinavian tax systems are characterised by high tax-to-GDP ratios, broad tax bases, and strong administrative capacity. Compliance rates are high due to high institutional trust, transparent governance, and highly digitalised tax administrations. Inefficiencies are relatively limited but include high marginal tax burdens that may create labour supply distortions in specific segments and administrative complexity in coordinating extensive welfare-linked tax credits and transfers. The main structural challenge is maintaining competitiveness and labour market

incentives while sustaining high levels of redistribution and public services. Reform focus is typically on efficiency optimisation rather than revenue expansion.

Western European systems combine high administrative capacity with complex and sometimes fragmented tax structures. Corporate taxation is often shaped by strong integration into global value chains and significant reliance on multinational enterprises, creating sensitivity to profit shifting and tax base erosion. Personal taxation systems tend to be progressive but administratively complex, with multiple deductions and sector-specific rules. A key inefficiency lies in legal and fiscal complexity, which increases compliance costs and creates room for optimisation strategies that reduce effective tax rates below statutory levels. The main improvement opportunity is simplification and better coordination between corporate tax rules and digital economy taxation frameworks.

Across all regions, the main disparities are not only in tax levels but in the relationship between statutory design and administrative effectiveness. Southern Europe and candidate countries face enforcement and informality constraints, Eastern Europe faces base-narrowing from tax competition strategies, Scandinavia faces optimisation of already high-performing systems, and Western Europe faces complexity-driven inefficiencies. The overarching improvement opportunity across the EU lies in strengthening administrative capacity, harmonising core tax base definitions, and reducing structural opportunities for cross-border arbitrage while preserving national fiscal diversity where it remains functionally efficient.

Table

Indicator (OECD-aligned)	Southern Europe	Candidate Countries	Eastern Europe	Scandinavia	Western Europe
Tax-to-GDP ratio	Medium–high, structurally under-collected	Low	Medium	Very high	High
Tax gap (VAT/income)	High	Very high	Medium	Low	Medium
Informal economy size	High	Very high	Medium–high	Low	Low–medium
Tax administration digitalisation	Medium	Low	Medium–high	Very high	High
Compliance rate (self-reported vs actual)	Medium–low	Low	Medium	Very high	High
Corporate tax base erosion risk	High	Medium	High (tax competition)	Low	High
Reliance on indirect taxes (VAT)	High	Very high	High	Balanced	Balanced
Progressivity of tax system	Medium	Low–medium	Low–medium	High	High
Institutional trust in tax authority	Medium–low	Low	Medium	Very high	High
Administrative complexity (tax code density)	High	Medium	Medium	Low–medium	Very high
Revenue stability	Medium	Low	Medium	Very high	High
EU integration readiness (tax alignment)	Medium	Medium (in transition)	High	Very high	Very high

Lessons Learned

The comparison reveals that tax system performance is less determined by nominal tax rates and more by the interaction between administrative capacity, compliance culture, and institutional trust. Regions with similar tax burdens exhibit very different revenue outcomes depending on enforcement quality and digitalisation.

A first lesson is that **administrative capacity is the binding constraint** in low- and middle-capacity systems. Candidate countries and parts of Southern Europe show that even well-designed tax rules fail when enforcement systems are fragmented or under-digitalised.

A second lesson is that **informality and tax gaps function as structural revenue ceilings**. High informality in Southern Europe and candidate countries significantly limits effective tax-to-GDP ratios, regardless of statutory rates.

A third lesson is that **tax competition reduces long-term fiscal stability**, particularly in Eastern Europe where competitive corporate tax regimes improve investment attraction but narrow the tax base and increase vulnerability to profit shifting.

A fourth lesson is that **high-trust, highly digitalised administrations generate the most efficient outcomes**, as seen in Scandinavia, where high tax-to-GDP ratios coexist with low tax gaps and strong compliance.

A fifth lesson is that **complexity is itself a form of inefficiency**, particularly in Western Europe, where sophisticated but fragmented tax codes increase compliance costs and create avoidance opportunities even in high-capacity systems.

A final cross-cutting lesson is that **EU tax performance divergence is increasingly institutional rather than economic**: differences in outcomes are driven less by GDP levels and more by administrative design, digital infrastructure, and institutional trust. This suggests that future EU tax convergence would be more effectively achieved through administrative harmonisation and data integration than through rate harmonisation alone.

Tax Havens

Within the European Union, countries often labelled as “tax havens” such as Ireland, Luxembourg, the Netherlands, and to some extent Malta or Cyprus, do not function as classical offshore secrecy jurisdictions. Instead, they operate as **highly integrated, legally compliant tax competition hubs inside a single market**, where advantages come less from secrecy and more from legal structuring opportunities, low effective tax rates for certain activities, and advanced treaty and corporate frameworks.

The nuance is important: these jurisdictions are not outside the system; they are deeply embedded in EU law. This makes the issue less about illicit activity and more about **aggressive but legal tax planning enabled by differences in national tax sovereignty within a harmonised market**.

Ireland is a prominent example. Its headline corporate tax rate is low by EU standards, but the more significant factor has historically been its role as a location for multinational intellectual property structures and profit allocation strategies. Large technology and pharmaceutical firms often book substantial global profits in Ireland due to its corporate tax regime combined with extensive treaty networks and favourable treatment of intellectual property. This has contributed to substantial tax revenues for the Irish state, but also to debates about whether profits generated elsewhere are being disproportionately allocated there. Ireland has gradually adjusted its rules in response to OECD global minimum tax agreements, but it remains a key location for headquarters and IP structuring within Europe.

Luxembourg operates differently. Its strength lies less in industrial activity and more in financial intermediation. It has developed a sophisticated ecosystem of investment funds, holding companies, and cross-border financial structures. These arrangements are legal and often fully transparent under EU law, but they allow multinational firms and investors to route capital through Luxembourg entities in ways that can significantly reduce effective

tax burdens. The country's competitive advantage comes from regulatory expertise, flexible corporate law, and deep financial sector specialization rather than secrecy.

The Netherlands plays a similar intermediary role, particularly through its extensive network of tax treaties and its historically flexible treatment of royalty and interest flows. It has been widely used as a conduit jurisdiction, where companies route payments through Dutch entities to take advantage of treaty benefits and reduce withholding taxes. In recent years, the Netherlands has introduced anti-abuse measures, but its structural position as a major trade and investment gateway continues to make it central in global corporate tax planning.

Figure



Other smaller EU jurisdictions, including Malta and Cyprus, have also offered favourable regimes for specific types of income or corporate structures, often attracting holding companies, intellectual property assets, or high-net-worth individuals. These systems typically operate within EU law but exploit differences in national tax policy choices.

The key nuance is that these are not “tax havens” in the traditional sense of secrecy jurisdictions outside regulatory reach. Instead, they are **competitive tax jurisdictions inside a harmonised legal space**, where sovereignty over corporate taxation remains largely national. This creates structural tension within the EU single market: capital is highly mobile, while tax policy is not fully harmonised.

From a policy perspective, the core issue is not illegality but **asymmetric tax competition**. Countries compete by offering lower effective tax rates, preferential rulings, or favourable treatment of mobile tax bases such as intellectual property and financial income. This can lead to profit shifting, where taxable income is geographically separated from where real economic activity and employment occur.

EU-level responses have increasingly focused on limiting these asymmetries rather than eliminating competition altogether. Measures such as the Anti-Tax Avoidance Directives, interest limitation rules, country-by-country reporting, and the adoption of the global minimum corporate tax are designed to reduce extreme divergence in effective taxation while preserving a degree of national fiscal autonomy.

At the same time, it is important to recognise that these jurisdictions also provide legitimate economic functions. Ireland has built a high-value export-oriented economy anchored in foreign direct investment. Luxembourg is one of the world's leading investment fund centres. The Netherlands is a major logistics and trade hub. Their tax systems are therefore not isolated distortions but part of broader development strategies that combine taxation, regulation, and economic specialization.

The broader implication for EU policy is that addressing “tax haven behaviour” inside the Union is less about enforcement and more about **managing structural differences in tax sovereignty within a deeply integrated market**. The tension will likely persist, but it is increasingly shaped by minimum tax rules, transparency standards, and coordinated anti-avoidance frameworks rather than unilateral national action.

Pilot projects

The proposed pilot project for testing a prototype EU-level tax administration system is designed as a controlled governance experiment rather than immediate fiscal integration. Its purpose is to evaluate whether a shared administrative layer for taxation can improve efficiency, compliance, and anti-avoidance outcomes across diverse European regions without requiring full harmonisation of national tax systems. The core hypothesis is that partial centralisation of key tax administration functions can reduce fragmentation and improve performance even in the absence of full fiscal federalisation.

The selection of regions is intentionally structured to capture different administrative and economic archetypes within Europe. Catalonia, Provence, Burgundy, Bavaria, Silesia, the Øresund region, Transylvania, and Tuscany together represent a spectrum ranging from high-capacity, highly digitalised tax systems to regions with transitional administrative capacity and higher levels of informality. This diversity allows the pilot to test how a unified administrative layer performs under varying institutional conditions, including strong compliance environments, fragmented governance structures, and economies with higher cash dependency or enforcement constraints.

The institutional design of the pilot would establish regional EU Tax Nodes operating as hybrid institutions. These nodes would not replace national tax authorities but would function as parallel EU-level administrative layers for selected tax domains. Their role would include VAT processing, cross-border corporate tax coordination, digital transaction monitoring, and risk-based compliance analysis. Each regional node would be linked to a central EU coordination platform responsible for harmonising data structures, managing real-time compliance analytics, and coordinating cross-border audits. National tax administrations would retain formal legal authority but would delegate operational functions within the scope of the pilot.

The scope of taxation included in the pilot would be deliberately limited to areas with high cross-border complexity and measurable compliance challenges. These would include value added tax systems, corporate profit allocation for firms operating across regions, taxation of digital services, cross-border labour income reporting, and intra-EU supply chain transactions. This targeted approach is intended to generate clear performance data while avoiding the political and legal sensitivity associated with full tax harmonisation.

Commitment within the pilot would be formalised through a fiscal integration agreement between participating Member States, regional authorities where applicable, and the European Commission. This agreement would require full participation in real-time tax data sharing systems, partial delegation of enforcement authority for defined tax categories to the EU regional nodes, and joint financing of the pilot infrastructure under a fixed multiannual budget envelope. The emphasis on binding data-sharing and operational cooperation is intended to test institutional commitment under real administrative conditions rather than voluntary coordination.

The agility dimension of the pilot is based on introducing adaptive governance mechanisms into tax administration. Instead of relying exclusively on slow legislative cycles, the system would allow for structured quarterly adjustments to enforcement parameters, compliance thresholds, and risk models. It would also include rapid resolution mechanisms for cross-border tax classification disputes and continuous feedback loops between audit outcomes and system design. The objective is to test whether tax governance can function as an iterative, data-driven system rather than a static legal structure.

Budget discipline would be ensured through a fixed funding envelope agreed in advance for the full duration of the pilot. No mid-term budget expansion would be permitted without unanimous approval from participating regions and EU institutions. Resources would be allocated across digital infrastructure development, enforcement coordination capacity, and administrative training. Efficiency would be evaluated through cost-per-compliance metrics to assess whether administrative integration produces measurable gains in fiscal efficiency.

The implementation would unfold in sequential phases. The first phase would focus on digital integration and harmonisation of tax data systems across participating regions. The second phase would activate shared compliance and enforcement mechanisms, including coordinated audits and cross-border risk analysis. The third

phase would evaluate performance outcomes, institutional stability, and the potential scalability of the model to other regions or at the EU level.

Evaluation of the pilot would be based on institutional performance indicators rather than purely fiscal outcomes. These would include reductions in VAT gaps across regions, improvements in the speed and consistency of cross-border tax dispute resolution, decreases in profit shifting within participating regions, increases in digital compliance rates, and reductions in administrative costs per unit of revenue collected. The emphasis is on measuring system efficiency, enforcement quality, and administrative convergence rather than changes in tax rates or total revenue alone.

Strategically, the pilot functions as a controlled test of whether elements of a unified EU tax administration can be introduced incrementally without full treaty-level fiscal integration. It examines whether digital infrastructure and shared enforcement mechanisms can compensate for institutional fragmentation and whether regional clusters can operate effectively as proto-fiscal unions within the broader EU framework. In this sense, it serves both as a policy experiment and as a diagnostic tool for understanding the limits and possibilities of deeper fiscal integration in Europe.

A useful way to design a **citizen-facing dimension of an EU tax pilot** is to separate two ideas: first, how citizens deliberate on the use of revenues, and second, what a “pilot EU citizen tax bill” would actually contain as an interface between individuals and a supranational fiscal system.

In this model, citizen panels would function as structured deliberative bodies at regional level, embedded in each pilot region. Their purpose would not be to set tax rates or decide technical tax rules, but to influence **budget allocation priorities, transparency standards, and legitimacy of revenue use**. These panels would receive simplified but comprehensive fiscal dashboards showing how revenues are collected and spent across EU, national, and regional layers. They would deliberate on priorities such as infrastructure investment, climate spending, social protection, or regional development, and their outputs would feed into non-binding but formally recorded budget recommendations. This creates a feedback loop between taxation and democratic legitimacy, reducing the perception of taxation as purely technocratic and distant.

Alongside this deliberative structure, the idea of a pilot EU citizen tax bill introduces a direct, personalised interface between individuals and a multi-level fiscal system. Instead of a single opaque national tax statement, citizens would receive a consolidated EU-level tax communication that reflects their total fiscal position across participating layers. The bill would not necessarily change legal liability in the pilot phase, but it would standardise visibility, traceability, and accountability.

The first element of such a bill would be a clear breakdown of total taxes paid across different levels of governance, showing the share allocated to EU-level functions, national budgets, and regional pilot structures. This is crucial for transparency in a system where fiscal authority becomes layered and partially integrated.

The second element would be a “use of contributions” section, linking paid taxes to broad expenditure categories such as healthcare systems, infrastructure projects, digital public services, research funding, and regional development programmes. The aim is not transactional earmarking but informational traceability, helping citizens understand fiscal flows in a complex multi-level system.

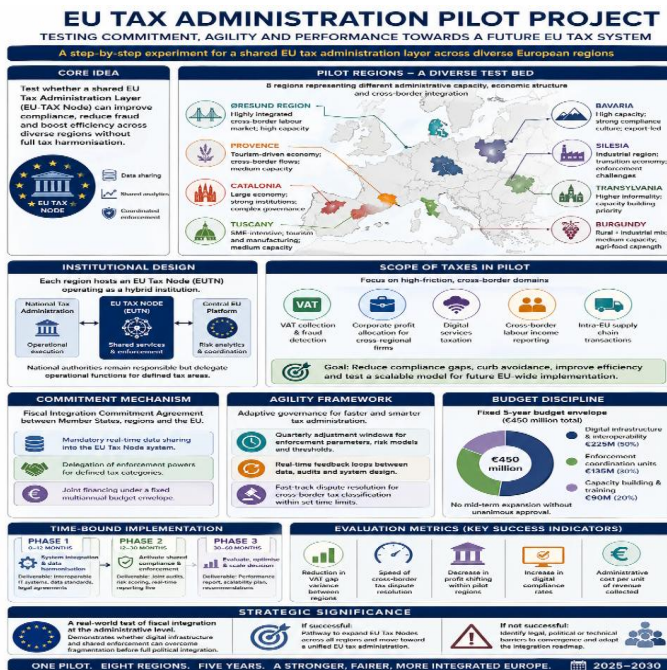
The third element would be a cross-border comparability indicator, showing how an individual’s tax contribution compares in structure (not necessarily amount) with citizens in other pilot regions. This introduces a benchmarking dimension that helps evaluate fairness and convergence across the EU tax space.

The fourth element would be a compliance and digital footprint summary, indicating how much of the citizen’s economic activity is captured through digital reporting systems versus estimated or indirectly assessed income. This reflects the transition toward a more digitalised tax administration model and highlights gaps in reporting systems.

The fifth element would be a feedback and participation interface, allowing citizens to provide structured input on perceived fairness, administrative efficiency, and spending priorities. This would be directly linked to the citizen panels, ensuring that individual-level feedback aggregates into deliberative institutional processes.

The sixth element would be a forward-looking projection, showing how changes in income, employment status, or regional fiscal policy might affect future tax contributions under the pilot system. This introduces an element of fiscal predictability and helps citizens understand the dynamic nature of a more integrated tax framework.

Figure



Taken together, citizen panels and the EU citizen tax bill would form a dual legitimacy architecture. The panels provide collective deliberation on how revenues should be used, while the tax bill provides individual-level transparency on how contributions are collected and distributed. In a system moving toward deeper fiscal integration, this combination is essential because it addresses one of the core risks of supranational taxation: perceived distance between citizens and fiscal authority.

If designed well, this model would not just improve transparency but also test whether fiscal integration in Europe can be accompanied by new forms of democratic participation and fiscal visibility that compensate for the loss of purely national tax administration.

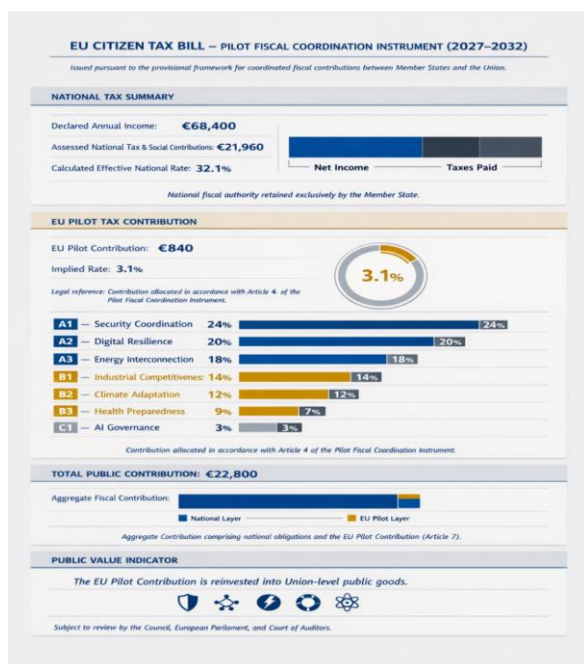
Instead of including AI Governance, Urban and Regional Development could be inserted as a separate focus area. This would help broaden the framework to better reflect spatial and territorial dimensions of policy and development. Digital resilience could be further refined by splitting it into three distinct components: digitalization, education, and Research, Development and Innovation (RDI). Digitalization would capture technological adoption and infrastructure development across sectors. Education and RDI would together strengthen long-term capacity building and innovation performance, thereby inoculating consciousness about the exigencies of competitiveness and continental unification in the European Union combined with a sense of realism of Europe’s demographic realities and development of the EU’s human capital.

The EU Citizen Tax Bill represents a conceptual and experimental framework developed to explore how fiscal responsibility and public contribution could be visualised and potentially coordinated across both national and supranational levels within the European Union. It is intended less as a binding fiscal instrument and more as a prototype for transparency, integration, and communication—an analytical model that makes visible how different layers of governance contribute to the overall cost of public goods and services.

At its core, the initiative proposes a rethinking of how taxation is perceived by EU citizens. Instead of viewing taxation solely as a fragmented national obligation, the model introduces a consolidated “payslip” concept. This payslip would hypothetically break down contributions into clearly distinguishable components: national taxes, regional or local levies, and a small, harmonised EU-level contribution. The purpose of this structure is not to centralise taxation authority, but to increase clarity and comparability, allowing citizens to see precisely how their contributions are distributed across governance levels.

Importantly, the EU Citizen Tax Bill is not a tax in the traditional legal or fiscal sense. It does not impose new obligations, alter Member State tax systems, or reduce national sovereignty over fiscal policy. Instead, it functions as a coordination and visualization tool—a pilot framework designed to test how a minimal, standardised EU contribution might be communicated and understood if such a mechanism were ever politically adopted in the future. In this sense, it operates as both a policy simulation and a governance communication experiment.

Figure One Tax Bill in the EU-MS Tax Partnership



One of its central objectives is to improve transparency in multi-level governance. The European Union already influences fiscal outcomes indirectly through budget contributions, structural funds, and regulatory alignment. However, these mechanisms are often opaque to citizens, who may struggle to distinguish between national and EU-level financial flows. By introducing a unified explanatory model, the EU Citizen Tax Bill seeks to make these relationships more intelligible, fostering a clearer understanding of how collective European resources are generated and allocated.

Another key dimension is the preservation of fiscal sovereignty. The framework is explicitly designed to avoid replacing or harmonising national tax systems. Instead, it assumes the continued primacy of Member State taxation while layering a symbolic or illustrative EU component on top. This ensures that diversity in national fiscal policy remains intact while still allowing for conceptual exploration of what a shared European fiscal identity might look like.

In a broader sense, the initiative also serves as a thought experiment in European integration. It raises questions about whether citizens could better relate to the EU as a fiscal actor if its role were made more visible in everyday economic life. By simulating a small, uniform contribution that appears alongside national deductions on a hypothetical payslip, the model encourages reflection on the balance between national autonomy and collective European capacity.

Ultimately, the EU Citizen Tax Bill is best understood as a bridge between economics, governance design, and public communication. It does not seek to implement immediate fiscal reform but rather to provide a structured way of imagining how multi-level taxation systems could be made more transparent, legible, and democratically interpretable in the future.

Between 2027 and 2032, the framework models an implied rate of 3.1%, drawn from national revenues and redistributed toward shared European public goods: security coordination, digital resilience, energy interconnection, industrial competitiveness, climate adaptation, health preparedness, and AI governance. Each allocation is expressed through micro-bars and proportional indicators, allowing citizens to see precisely how their contribution supports continental projects.

The design's intent is pedagogical and institutional: to make visible the architecture of fiscal solidarity—the idea that European integration can be measured not only in treaties or budgets but in the clarity of its fiscal communication. The payslip format borrows from everyday financial documents to render the abstract machinery of integration tangible, legible, and accountable.

Towards a European Taxation Partnership

If the European Union were to evolve into a single tax jurisdiction with a unified tax administration, the Treaties would require a fundamental constitutional redesign. The current system, which is based on coordination of national tax systems, would be replaced by a framework of shared or pooled fiscal sovereignty exercised through Union institutions. This would amount to a form of fiscal federalisation, where taxation is treated as a core function of the internal market and macroeconomic governance rather than a predominantly national competence.

A foundational treaty provision would first need to establish that taxation falls within a shared but unified competence of the Union. This would mean that the Union has primary authority over the definition, structure, administration, and enforcement of taxes within the internal market, while Member States participate through delegated implementation functions. Taxation would be explicitly defined as essential to the functioning of the internal market, economic stability, and fiscal integration. This would replace the current model of coordination with one of integrated fiscal sovereignty exercised jointly at Union level.

A second key provision would establish a central Union Tax Administration Authority. This institution would be responsible for the assessment, collection, and enforcement of taxes across the Union. It would manage unified tax databases, coordinate cross-border audits, oversee compliance systems, and operate digital tax infrastructure. National tax administrations would no longer function as independent sovereign bodies but would instead become operational branches of the Union system, executing policy and enforcement decisions under delegated authority.

A third provision would define the principle of a single harmonised tax base across the Union. This would require common definitions of taxable corporate income, unified rules for profit allocation, and a standardised framework for personal income taxation based on residency and source principles. Consumption taxation, including VAT, would operate under a fully integrated system. The objective would be to eliminate fragmentation in tax bases that currently enables profit shifting, regulatory arbitrage, and uneven enforcement outcomes across Member States.

A fourth provision would establish a fiscal allocation and redistribution mechanism. Since revenue would be collected at Union level, a structured system would be required to distribute funds back to Member States. This would likely be based on a formula incorporating indicators such as population, economic output, income levels, and structural needs. It would also include automatic stabilisation mechanisms to address asymmetric economic shocks across regions. This would transform the EU into a fiscal union with built-in redistribution capacity.

A fifth provision would formalise the principle of delegated implementation and subsidiarity in administration. While tax design and enforcement authority would be centralised, Member States would retain responsibility for operational delivery. National tax offices would act as administrative agents of the Union Tax Authority.

Subsidiarity would apply only to execution and service delivery, not to rule-making or enforcement discretion, which would be standardised at Union level.

A sixth provision would guarantee uniform taxpayer rights across the Union. This would establish a single legal framework governing taxpayer protection, including rights of appeal, judicial review, procedural fairness, and access to information. It would ensure that individuals and firms are subject to the same standards of treatment regardless of jurisdiction, with ultimate legal oversight provided at the European level, likely through the Court of Justice.

A seventh provision would establish a unified enforcement and anti-evasion framework. This would grant the Union direct access to relevant financial, transactional, and corporate data across Member States. It would enable real-time reporting systems for economic activity, coordinated cross-border audits, and harmonised sanctions for non-compliance. Enforcement would be treated as a single integrated system, eliminating jurisdictional gaps that currently facilitate tax avoidance and evasion.

An eighth provision would integrate taxation into broader fiscal and economic governance. It would set Union-wide fiscal sustainability principles, coordinate macroeconomic stabilisation functions, and embed automatic stabilisers into the tax system itself. This would align taxation with economic governance at the Union level, ensuring coherence between fiscal policy, monetary conditions, and structural economic objectives.

A ninth provision would redefine governance and democratic accountability. Tax legislation would shift from unanimous intergovernmental decision-making to a supranational legislative process involving the European Parliament and Council under qualified majority voting. National parliaments would move from veto powers to oversight roles, while transparency and consultation requirements would be strengthened to maintain democratic legitimacy in a centralised system.

A final transitional provision would govern the gradual shift from national to Union-level taxation. This would allow for phased transfer of competences, temporary coexistence of systems during transition, and targeted support for administrative capacity building in Member States with weaker institutions. The objective would be to ensure institutional convergence without destabilising existing fiscal systems.

Taken together, such a treaty architecture would transform the European Union from a coordinated multi-jurisdictional tax space into a unified fiscal system. Taxation would no longer be a primary expression of national sovereignty but a shared institutional function embedded in a single European fiscal authority, with Member States acting as administrative operators within a common framework rather than independent tax legislators.

Enabling Factors

To enable a transition to a Single Tax Jurisdiction (STJ), the EU would need to reform both its legal decision-making framework and its institutional architecture — shifting from unanimity-based national control to qualified majority voting and creating new fiscal coordination bodies.

The legal foundation must first evolve from the special legislative procedure that currently governs tax matters, where the Council acts as sole legislator and unanimity is required, to the ordinary legislative procedure under **qualified majority voting (QMV)**. This change, proposed in the Commission's Communication COM(2019) 8, would give the European Parliament co-legislative power and allow adoption when Member States representing at least 65 % of the EU population agree. Without this procedural reform, a single jurisdiction cannot be enacted because any one state could veto harmonisation.

Institutionally, the transition would depend on the consolidation of several ongoing initiatives. The **BEFIT proposal (Business in Europe: Framework for Income Taxation)**, adopted in September 2023, already outlines a common rulebook for computing corporate tax bases across the Union. It aggregates profits and losses of EU entities into a single base under shared rules, reducing administrative burdens and paving the way for a unified system. Complementary instruments — the **Transfer Pricing Directive** and the **Head Office Tax**

system — would standardise cross-border pricing and allow small firms to interact with one tax administration only, anticipating the operational logic of an STJ.

Further institutional adjustments would involve strengthening the **European Commission’s Taxation and Customs Union Directorate-General** as the central coordinating authority, expanding the **ECOFIN Council’s High-Level Working Party on Tax Questions** into a permanent fiscal governance body, and enhancing the **Court of Justice of the European Union (CJEU)** to adjudicate uniform tax disputes. Current reform plans for the CJEU, aimed at streamlining case law and capacity, are already aligned with this trajectory.

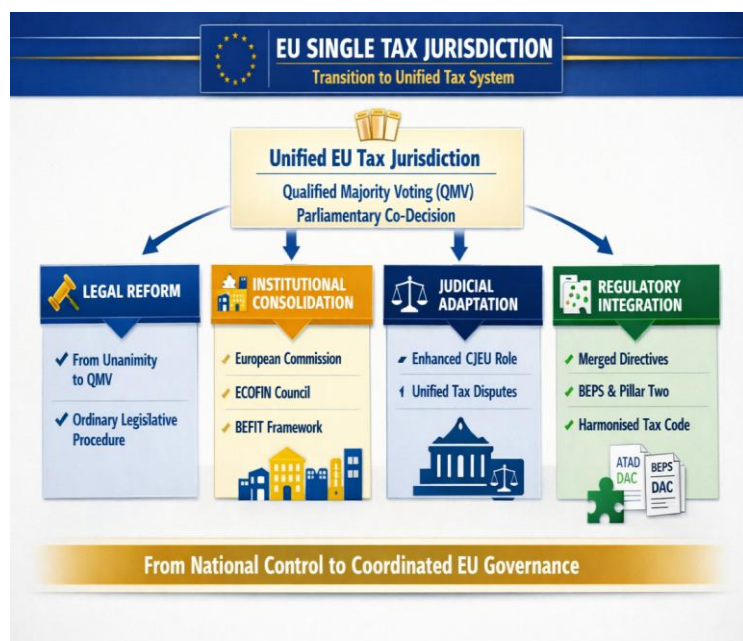
At the policy level, the EU would need to integrate the **OECD’s BEPS and Pillar Two frameworks** into its internal law, ensuring compatibility between global minimum-tax standards and EU-level consolidation. The Anti-Tax Avoidance Directive (ATAD), the Dispute Resolution Directive, and successive DAC (Directive on Administrative Cooperation) iterations would be recast to form a single compliance code.

In summary, the transition to an STJ requires:

1. **Legal reform** — move from unanimity to QMV; embed co-decision with Parliament.
2. **Institutional consolidation** — empower Commission and ECOFIN; unify tax administration under BEFIT.
3. **Judicial adaptation** — expand CJEU jurisdiction for fiscal harmonisation.
4. **Regulatory integration** — merge existing directives into a coherent EU tax code.

The decisive step is political: redefining fiscal sovereignty as shared competence rather than national prerogative. Without that conceptual shift, the legal machinery cannot deliver the unity the STJ demands.

Figure



In summary terms, the STJ transition would unfold as a temporal-institutional choreography, where each lane represents a governance domain evolving across three phases — legal, institutional, judicial, and regulatory.

From **2025–2027**, the legal lane initiates the shift from unanimity to qualified majority voting, embedding co-decision with Parliament and preparing the legislative scaffolding for fiscal integration. Parallel to this, the institutional lane consolidates the Commission’s Taxation and Customs Union Directorate-General and

formalises ECOFIN's fiscal governance body, while BEFIT begins operational harmonisation of corporate tax bases.

Between **2027–2031**, the judicial lane expands the Court of Justice's jurisdiction to adjudicate uniform tax disputes, ensuring coherence of interpretation and enforcement. Simultaneously, the regulatory lane merges directives — ATAD, DAC, and BEPS — into a unified compliance code, aligning EU law with global minimum-tax standards.

By **2031–2035**, all lanes converge into a single governance stream: the Unified EU Tax Jurisdiction. The Council and Parliament legislate under QMV; the Commission administers; ECOFIN coordinates; and the CJEU arbitrates. The system's equilibrium rests on shared sovereignty — fiscal authority distributed through legitimacy rather than hierarchy.

In essence, the organigramme visualises a **progressive integration of competence over time**, where legal reform enables institutional consolidation, judicial adaptation secures uniformity, and regulatory integration delivers operational unity — culminating in a coherent, legitimate, and resilient European fiscal architecture.

Stakeholders views

Different stakeholders interpret the prospect of a unified EU tax jurisdiction through markedly divergent frames, and these frames are shaped as much by political economy as by institutional culture. Among the Member States, the most supportive governments — typically France, Germany, Spain, Italy, Belgium, and the Netherlands — view a Single Tax Jurisdiction as a structural correction to the inefficiencies of twenty-seven parallel tax systems. For them, fragmentation distorts competition, erodes revenues, and undermines the integrity of the internal market. They tend to see qualified majority voting not as a loss of sovereignty but as a functional necessity for a modern fiscal union.

A second group, composed of Denmark, Sweden, Finland, and Austria, adopts a more conditional stance. These states accept the logic of coordination and the need for anti-avoidance measures, yet they remain wary of any centralisation that might limit their capacity for policy experimentation. Their position is neither rejectionist nor enthusiastic; it is a cautious pragmatism grounded in subsidiarity and competitiveness concerns.

The most resistant states — Ireland, Luxembourg, Cyprus, Malta, and Estonia — perceive the STJ as a direct threat to their economic model. For them, tax autonomy is not merely a policy instrument but a strategic asset. They fear that harmonisation would raise effective tax burdens, diminish investment attractiveness, and erode the democratic legitimacy of national parliaments. In this bloc, unanimity is not a procedural detail but a constitutional safeguard.

Institutional actors add further layers of nuance. The European Commission frames the STJ as a remedy to the “cost of non-Europe,” emphasising efficiency, fairness, and the need for a predictable consolidated tax base. The European Parliament supports harmonisation for reasons of equity and transparency but insists that any shift in fiscal authority must be accompanied by democratic oversight. ECOFIN and its working parties remain structurally divided, with unanimity amplifying the influence of reluctant states. The Court of Justice, for its part, recognises that harmonisation would reduce litigation complexity and ensure uniform interpretation, yet it also warns that rapid consolidation without clear competences risks overburdening the judicial system.

Non-state stakeholders introduce additional perspectives. Multinational firms welcome simplification and legal certainty but fear higher effective tax rates and reduced planning flexibility. SMEs appreciate the promise of easier cross-border operations but worry that harmonisation may privilege large firms with greater administrative capacity. Civil society organisations support transparency and fairness but remain alert to the dangers of technocratic centralisation and the potential dilution of national accountability. Tax professionals and academics, meanwhile, emphasise predictability and coherence while cautioning against rigidity and the loss of fiscal innovation.

Taken together, these positions imply that any engagement plan must be sequenced and differentiated. The first phase must focus on legitimacy, reducing fears by guaranteeing that harmonisation does not automatically entail rate alignment and by preserving visible national oversight mechanisms. The second phase should concentrate on technical consolidation, expanding BEFIT as a modular system, strengthening the Commission's coordinating authority, and enhancing the CJEU's capacity for tax adjudication. Only once administrative benefits are demonstrated can the political phase begin, with a carefully managed transition to qualified majority voting, distributional safeguards to prevent revenue shocks, and a structured Parliament–Council fiscal dialogue to anchor democratic legitimacy.

In essence, the STJ can only advance if it is framed not as a transfer of sovereignty but as a reconfiguration of sovereignty — shared where necessary, national where possible, and legitimate only when the balance between unity and diversity is visibly maintained.

Jurisdiction, Administration and Partnership

The distinction between a **Single Tax Jurisdiction**, a **Single Tax Administration**, and the **EU Member States Taxation Partnership** becomes clearest when described as three different constitutional temperatures. Each represents a different depth of integration, a different location of fiscal authority, and a different political cost. Removing bullets and numbers allows the conceptual differences to surface as a continuous institutional gradient rather than a checklist.

A Single Tax Jurisdiction is the deepest and most constitutionally consequential model. It transforms the EU into one legal tax territory for the relevant taxes, governed by a single rulebook, a unified tax base, and a central adjudicating authority. Member States would still collect revenue, but they would no longer define the underlying tax rules independently. The shift is not administrative but sovereign: taxation moves from a national prerogative to a shared competence. This is why it requires qualified majority voting, co-decision with Parliament, and a consolidated legal code. It is the only model capable of eliminating structural arbitrage, profit shifting, and the distortions created by twenty-seven parallel systems, but it is also the model that most directly challenges the traditional constitutional settlement of fiscal autonomy.

A Single Tax Administration is something entirely different. It does not touch the power to define tax rules; it only reshapes the machinery that implements them. Member States keep their own tax laws, but they operate through a shared administrative interface: one filing portal, one audit standard, one data-exchange system, one compliance architecture for cross-border firms. This is the logic behind the One-Stop Shop, the VAT e-commerce package, and the Head Office Tax System. It is a coordination mechanism rather than a sovereignty shift. It reduces friction, improves enforcement, and lowers compliance costs, but it leaves the constitutional balance intact. The political message is that nothing fundamental is being surrendered; the EU is simply modernising the plumbing.

The EU Member States Taxation Partnership sits at the lightest end of the spectrum. It is not a jurisdiction and not an administration. It is a cooperation framework that encourages joint audits, shared risk analysis, common definitions, and interoperable reporting systems. It is voluntary, non-binding, and entirely compatible with full national sovereignty. It is the fiscal equivalent of a diplomatic working group: a place to align practices, build trust, and reduce fragmentation without committing to anything irreversible.

These distinctions matter because they determine what is legally possible and politically viable. A Single Tax Jurisdiction requires constitutional courage and political consensus; it is transformative and therefore contentious. A Single Tax Administration is pragmatic and technocratic; it delivers efficiency without altering the locus of authority. The Taxation Partnership is preparatory; it builds confidence and administrative convergence but does not create obligations.

In strategic terms, the partnership cultivates trust, the administration builds capacity, and the jurisdiction creates the union. Understanding the difference is essential because conflating them leads to misplaced fears, unrealistic expectations, and stalled reforms.

The distinctions matter because each model carries a different political cost, legal requirement, and integration trajectory.

A Single Tax Jurisdiction is transformative. It requires unanimity to create, QMV to operate, and a constitutional reframing of sovereignty. It is the only model that can eliminate profit shifting, tax arbitrage, and structural fragmentation — but it is also the most politically explosive.

A Single Tax Administration is pragmatic. It delivers efficiency, reduces compliance burdens, and improves enforcement without touching the core of national fiscal autonomy. It is politically sellable because it is framed as “better administration,” not “less sovereignty.”

The Taxation Partnership is incremental. It builds trust, aligns practices, and prepares the ground for deeper reforms. It is the diplomatic pre-integration phase — the place where reluctant states can participate without committing to anything irreversible.

In strategic terms: The Partnership builds confidence. The Administration builds capacity. The Jurisdiction builds the union.

Tax and the EU – a Great Debate

The debate over **EU taxation and spending** is not merely fiscal—it is existential. At stake is the question of how a Union of 450 million citizens can transform revenue into tangible welfare, innovation, and legitimacy. The €7.1 trillion collected in 2024 represents not just economic capacity but democratic potential: every euro embodies a choice about what Europe values and how it defines fairness.

At the heart of the argument lies a tension between **efficiency and equity**. One side contends that the EU must maximise utility per citizen per euro spent—that is, measure every expenditure against its capacity to improve life, productivity, and sustainability. This utilitarian vision demands rigorous outcome metrics: how many euros translate into cleaner energy, better education, or digital inclusion? It implies a shift from input-based budgeting to **impact-based governance**, where success is measured by social return rather than administrative compliance.

The opposing view insists that taxation is not only an instrument of efficiency but a **symbol of solidarity**. Redistribution, cohesion funds, and social transfers are not inefficiencies but expressions of European unity. To these voices, the question is not how to spend less, but how to spend better—with transparency, citizen participation, and moral coherence. They argue that fiscal legitimacy depends on citizens feeling heard in how their money is used, not merely informed after the fact.

This is why **citizen voice** matters. Taxation without representation is an old warning, but in the EU context it becomes taxation without connection. When citizens perceive that their contributions vanish into opaque bureaucratic channels, trust erodes. Conversely, when they see their euros building infrastructure, funding research, or stabilising regions, the Union’s moral architecture strengthens. Participatory budgeting, digital feedback platforms, and open-data fiscal dashboards could make the EU’s spending visible, traceable, and debatable—turning fiscal policy into civic dialogue.

Ultimately, the great debate is about **the moral geometry of money**: whether Europe’s fiscal power serves its people as individuals or as abstractions. To maximise utility per citizen per euro is to ask not only how much is spent, but why and for whom. It is a call for a new European fiscal philosophy—one that treats taxation as the bloodstream of democracy, and spending as its heartbeat.

Revenue versus GDP

Government revenue is largely a function of the size and productivity of the economy, while government spending can in turn influence future economic growth.

GDP measures the total value of goods and services produced within the economy. Government revenue is generated from economic activity through taxes on income, consumption, profits, payrolls, property, and other taxable transactions. As GDP grows, the tax base expands, which generally leads to higher government revenues. More employment creates more payroll and income tax revenue, higher consumption generates more VAT revenue, and stronger business performance increases corporate tax receipts.

The relationship can be expressed through the standard GDP identity:

$$\text{GDP} = C + I + G + (X - M)$$

With government revenues of approximately €7.1 trillion and GDP of approximately €23 trillion, the revenue-to-GDP ratio is roughly 31%. This means that governments collectively collect revenues equivalent to about one-third of the economic output generated each year.

It is important not to interpret the €7.1 trillion as money being removed from a €23 trillion economy. Government revenues are largely recycled back into economic activity through public-sector wages, pensions, healthcare, infrastructure, education, procurement, security, and defense spending. Much of this expenditure becomes income for households and businesses and is therefore part of GDP itself.

The causal relationship therefore runs both ways. A larger economy generates larger tax revenues because there is more income, spending, and profit to tax. At the same time, effective use of public revenues can improve infrastructure, human capital, innovation, security, and institutional quality, which can support higher future GDP. The first relationship is usually stronger and more immediate: GDP growth tends to increase revenues automatically through a broader tax base.

In the context of a tax partnership, the significance of the €7.1 trillion figure is that it demonstrates the scale of existing fiscal capacity. The central policy question is not how to create entirely new revenues, but how much of the existing revenue base could be coordinated for common objectives. A contribution equal to 1% of €7.1 trillion would generate approximately €71 billion annually. A 2% contribution would generate approximately €142 billion, while a 5% contribution would generate approximately €355 billion. Because the underlying tax base is so large, even relatively small coordinated contributions can create substantial funding capacity for shared European priorities.

The rationale behind linking a €23 trillion economy to €7.1 trillion of public revenue is therefore straightforward: a large and productive economy generates a large tax base, and a large tax base creates the possibility of financing both national priorities and carefully defined collective objectives. The strength of the economy explains the scale of revenue, while the scale of revenue determines the resources available for public investment and policy action.

If the objective is to increase the **aggregate GDP of the European Union**, policy should focus on expanding the economy's productive capacity rather than simply increasing public spending. GDP growth occurs when the economy becomes capable of producing more goods, services, technologies, and high-value activities. The most effective interventions are therefore those that increase productivity, investment, innovation, labor participation, and competitiveness.

The strongest long-term driver of growth is **human capital development**. Investment in education, vocational training, digital skills, engineering, scientific research, and lifelong learning increases the productivity of the workforce. A more skilled labor force is able to create more value per worker, which raises both wages and overall economic output.

A second priority is **research, development, and technological innovation**. Economic history shows that major increases in prosperity are typically driven by technological progress. Investment in artificial intelligence, quantum computing, biotechnology, robotics, semiconductors, advanced manufacturing, aerospace, and clean technologies creates new industries while increasing productivity across existing sectors. Innovation allows the same amount of labor and capital to generate greater economic value.

Infrastructure modernization is another essential growth strategy. High-speed transport networks, modern ports, efficient logistics systems, digital infrastructure, smart electricity grids, energy interconnections, and advanced telecommunications reduce the cost of economic activity and improve efficiency across the entire economy. Infrastructure spending is particularly valuable because it supports both short-term demand and long-term productivity gains.

Energy policy plays a central role in economic competitiveness. Affordable, reliable, and secure energy reduces production costs for households and businesses. Investment in energy generation, grid modernization, storage technologies, cross-border interconnections, and energy security can significantly strengthen industrial competitiveness and attract investment.

One of the EU's largest opportunities lies in further integrating the Single Market. Despite decades of integration, regulatory fragmentation still limits the movement of capital, services, data, and businesses across borders. Reducing administrative barriers, harmonizing regulations, strengthening capital markets, and creating a more integrated digital economy would allow firms to scale more efficiently and operate within a truly continental market.

Investment financing is equally important. Many European firms struggle to access growth capital compared with competitors in other major economies. Policies that deepen capital markets, encourage venture capital, facilitate public listings, and improve access to long-term investment financing can help innovative companies grow into globally competitive enterprises.

Strategic industrial policy can further support growth by strengthening sectors with high value-added potential and strong multiplier effects. Areas such as semiconductors, aerospace, pharmaceuticals, advanced manufacturing, defense technologies, and clean energy industries can generate significant productivity gains while improving Europe's strategic autonomy.

Figure Raking in revenues without giving much back to the political community's wealth generation



Source: https://taxation-customs.ec.europa.eu/news/tax-revenue-rebounds-2024-after-decade-low-2023-2026-03-31_en

Defense and security spending can also contribute to economic growth when directed toward research-intensive industries and domestic production capabilities. Investments in cybersecurity, aerospace systems, advanced

manufacturing, dual-use technologies, and defense research often create innovations that later diffuse into civilian markets, generating broader economic benefits.

Demographic and labor market policies are increasingly important given Europe's aging population. Expanding labor force participation, improving childcare availability, supporting workforce mobility, attracting skilled migrants, and encouraging longer productive careers can increase the number of workers contributing to economic output.

In the context of a European tax partnership or shared fiscal capacity, the highest-growth spending priorities would likely be research and innovation, advanced energy infrastructure, digital infrastructure, artificial intelligence, strategic transport corridors, defense technology, workforce development, and cross-border industrial projects. These investments generate returns because they raise productivity and strengthen the foundations of future growth.

The fundamental rationale is that a €23 trillion economy does not become a €30 trillion economy simply because governments collect more revenue. It becomes a €30 trillion economy because workers become more productive, businesses become more innovative, infrastructure becomes more efficient, capital is allocated more effectively, and technology enables society to create more value from the same underlying resources. Economic growth is ultimately the result of expanding productive capacity, and the most successful policies are those that strengthen that capacity over time.

To animate citizen focus groups around EU taxation and spending, the discussion must be framed not as a technical exercise but as a civic act — a deliberation on how collective resources express collective values. Ten guiding discussion points can structure these sessions, each designed to provoke reflection, disagreement, and imagination rather than consensus.

1. What should be taxed in a digital, post-industrial economy?

Should the EU shift from labour-based taxation toward data, carbon, and automation levies? Participants can explore whether taxing algorithms or emissions better reflects twenty-first-century productivity.

2. How do we define fairness in taxation?

Is fairness proportional (everyone pays according to income) or corrective (those who benefit most from integration contribute more)? This question invites citizens to articulate their moral intuition about equity.

3. Should the EU harmonise tax bases or preserve national autonomy?

A debate on sovereignty versus efficiency: does fiscal fragmentation weaken the Union's capacity to act, or does diversity protect democratic choice?

4. How transparent should EU spending be?

Citizens can discuss whether every euro should be traceable through open-data dashboards, and whether transparency itself increases trust or merely exposes complexity.

5. How can spending maximise utility per citizen?

Participants might rank policy domains — education, climate, health, defence — by perceived social return, testing how different demographics value outcomes.

6. Should citizens have direct input on EU budget priorities?

This introduces participatory budgeting: could digital platforms allow Europeans to allocate a symbolic portion of the EU budget themselves?

7. How do we measure success in public spending?

Is success GDP growth, wellbeing, resilience, or environmental restoration? The group can debate which metrics should guide fiscal evaluation.

8. What role should taxation play in climate transition?

Should carbon taxes fund green innovation directly, or be redistributed to offset social inequality? This links fiscal design to ecological justice.

9. How can taxation strengthen European identity?

Does contributing to a shared EU budget make citizens feel part of a common project, or does it risk alienation if benefits seem remote?

10. How can citizens ensure their voices are heard?

The closing discussion should focus on mechanisms — citizen assemblies, fiscal councils, digital consultations — that transform taxation from obligation into participation.

A multilevel revenue-sharing system begins with the recognition that fiscal capacity is unevenly distributed across the Union, while policy responsibilities are increasingly shared. A stable model therefore requires a transparent formula that allocates resources across EU, national, regional, and municipal levels according to function rather than tradition. The first principle is that revenue should follow responsibility: the level of government tasked with delivering a service should receive the resources to do so. The second principle is that shared competences require shared financing, which is where a structured revenue-sharing mechanism becomes essential. Under such a model, a portion of broad-based taxes—such as VAT, carbon pricing proceeds, or digital levies—could be pooled at the EU level to fund cross-border public goods. Member states would retain primary responsibility for labour and income taxation, but contribute a defined share to a common envelope based on economic capacity.

Regions would receive formula-based transfers reflecting population, infrastructure needs, and social indicators. Municipalities would gain predictable funding streams for essential services, reducing their dependence on ad-hoc grants. A multilevel system also allows for counter-cyclical stabilisation, with higher-level governments supporting lower levels during downturns. Spending distribution would be guided by outcome-based metrics rather than historical allocations. This means that funds flow to programmes demonstrating measurable improvements in wellbeing, productivity, or environmental resilience. Such a model encourages innovation, because successful local experiments can be scaled with shared resources. It also strengthens accountability, since each level of government must justify its use of funds against agreed performance indicators. Citizens benefit from clarity: they can see which level of government finances which service and why. This transparency helps rebuild trust in public institutions by making fiscal flows visible and comprehensible. A multilevel system also creates space for citizen participation, allowing communities to influence spending priorities at the level closest to their daily lives. At the same time, it ensures that large-scale challenges—climate transition, digital infrastructure, research—are financed collectively. The overall effect is a more coherent fiscal architecture that aligns resources with responsibilities and outcomes. In doing so, it supports a Union where taxation and spending are not abstract processes but shared civic choices.

Maximising **utility per euro spent per EU citizen** is ultimately a question of how public money can generate the greatest possible social, economic, and environmental return without prescribing any political position. What follows is a structured, analytical argument—rooted in cost-benefit logic—about how such maximisation can be understood and why it matters for citizens who want their voices heard in fiscal decisions.

To begin, utility maximisation requires shifting from **input-based budgeting** (“how much do we spend?”) to **outcome-based budgeting** (“what does each euro achieve?”). This reframes public finance as an investment portfolio rather than a ledger, where programmes are evaluated by their measurable impact on wellbeing,

productivity, resilience, or environmental quality. Cost-benefit analysis becomes the anchor: each euro is assessed against the value it creates, whether through reduced emissions, improved health, higher employment, or stronger digital infrastructure.

A second pillar is **marginal utility**, the idea that the next euro spent should go where it produces the highest additional benefit. This encourages governments to identify diminishing returns: for example, whether an extra euro in transport infrastructure yields more value than an extra euro in early-childhood education. It also supports reallocating funds from low-impact programmes to high-impact ones, increasing overall efficiency without reducing total spending.

Third, utility maximisation depends on **targeting**, because benefits differ across populations. Spending that reduces inequality, improves access to services, or supports vulnerable groups often produces higher social returns than untargeted transfers. Cost-benefit frameworks can quantify these effects by measuring long-term gains in health, employment, and social cohesion.

Fourth, transparency is essential. Citizens can only judge whether money is well spent if they can see where it goes and what it achieves. Open-data dashboards, participatory budgeting tools, and clear reporting on programme outcomes allow people to understand the link between their contributions and public results. This visibility strengthens trust and encourages informed debate about priorities.

Fifth, utility maximisation requires **cross-border coordination**. Many of the EU’s most pressing challenges—climate transition, digital infrastructure, research, security—produce benefits that no single member state can capture alone. Shared investment in these areas can generate higher collective returns than fragmented national spending, because the benefits spill across borders.

Finally, citizen voice matters because utility is not only technical; it is normative. What counts as “benefit” depends on what citizens value: safety, opportunity, fairness, sustainability, or cultural vitality. When people participate in setting priorities, the resulting spending patterns better reflect the diversity of preferences across the Union. This makes public finance more legitimate and more responsive, ensuring that utility is defined not by institutions alone but by the people who fund them.

Figure Continental Unification and the EU Tax regime



Maximising wealth generation from a total public revenue of €7.1 trillion is less about spending more and more about spending differently. In growth terms, the question is simple: where does each public euro produce the largest, durable increase in the EU’s aggregate GDP? The evidence from both EU and OECD practice points to a consistent pattern: the highest long-run returns come from investment in human capital, innovation, and enabling infrastructure, combined with a tax mix that distorts productive activity as little as possible.

First, on the **spending side**, the best growth record is associated with shifting expenditure from pure consumption to **productive investment**. That means prioritising early-childhood education, vocational training, and lifelong learning; these raise labour productivity and employment rates over decades, not just budget cycles. It also means large, predictable investment in **R&D, digital infrastructure, and green transition**—areas where public money crowds in private capital by reducing risk and creating stable expectations. EU instruments like Horizon Europe, the Recovery and Resilience Facility, and cross-border energy and transport corridors are examples of this logic: they finance projects with strong spillovers across borders and sectors, which no single member state would fund alone. When a meaningful share of the €7.1 trillion is channelled into such high-multiplier uses, the effect on aggregate GDP compounds over time.

Second, on the **revenue side**, wealth generation is helped by a tax structure that is **growth-friendly**. International practice suggests that heavy taxes on labour and productive investment tend to depress employment and capital formation, while well-designed taxes on **consumption, property, and negative externalities (like carbon)** are less harmful to growth if implemented carefully. For the EU, this points toward gradually easing the tax wedge on low and middle labour incomes, while strengthening bases that are harder to relocate or that correct market failures—carbon pricing, environmental taxes, and certain forms of property and inheritance taxation. The goal is not a higher or lower overall tax ratio per se, but a composition that supports work, entrepreneurship, and innovation while internalising environmental and social costs.

Third, governance and evaluation are what turn revenue into real wealth. High-growth jurisdictions systematically use cost-benefit analysis, ex-ante and ex-post evaluations, and sunset clauses to weed out low-impact programmes and scale up those with proven effects. For the EU, that means embedding rigorous impact assessment into cohesion policy, industrial policy, and green transition spending, and making results visible through open data so that citizens and parliaments can see which euros actually move GDP, jobs, and productivity. Stable, credible fiscal frameworks—clear rules, predictable multiannual planning, and protection of investment during downturns—also matter, because they reduce uncertainty and encourage private firms to invest alongside public authorities.

Put simply: to maximise wealth generation and grow the EU's aggregate GDP, the €7.1 trillion needs to be treated as an **investment portfolio**. Shift the mix toward high-multiplier human capital, innovation, and infrastructure; redesign the tax base to be more growth-friendly and greener; and hard-wire evaluation and transparency so that money continuously flows from low-return to high-return uses. If you want, we can turn this into a short **policy note** with concrete headings (tax mix, spending priorities, governance) that you can drop straight into a memo or slide deck.

The European Union's €7.1 trillion in annual tax revenue is not merely a fiscal statistic; it is the material expression of Europe's collective capacity to generate, distribute, and renew wealth. Every euro collected represents a fragment of trust between citizens and institutions — a belief that shared resources can produce shared prosperity. The challenge is to convert this immense fiscal power into genuine economic growth, measured not only by GDP but by the quality of life, innovation, and resilience it sustains. The logic of wealth generation therefore rests on three interlocking pillars: investment in innovation and skills, construction of smart infrastructure, and reform toward growth-friendly taxation. Together, they form a cycle in which public spending catalyses private investment, private innovation expands the tax base, and the resulting revenue finances the next wave of transformation. The question for citizens and policymakers alike is how to make this cycle visible, efficient, and fair — how to ensure that each euro spent multiplies value rather than merely circulates it.

Growing the EU economy from roughly \$20 trillion to \$30 trillion in ten years is ambitious but not fantastical—it implies sustained nominal growth of around 4–5% a year, combining moderate real growth with contained inflation and a stable exchange rate. Hitting that trajectory is less about a single “big move” and more about aligning several structural levers so they reinforce one another rather than cancel out.

First, productivity has to rise faster than in the last decade. That means large, predictable investment in R&D, AI, green and digital infrastructure, and skills—especially vocational and lifelong learning—so that firms can adopt new technologies and workers can actually use them. Deepening the single market (services, energy,

digital, data) and completing Capital Markets Union would channel more private capital into high-growth sectors instead of trapping it in low-yield, fragmented national markets. If Europe can lift trend productivity growth by even 0.5–1 percentage point, the compounding effect over a decade is enormous.

Second, the labour side must support, not drag on, growth. Higher participation (especially among women and older workers), smarter migration policy, and better matching between skills and jobs all expand effective labour input without simply “working more hours.” Policies that make it easier to move, retrain, and combine work with care responsibilities are not social extras; they are growth policy. At the same time, tax and benefit systems should avoid penalising work at the margin, particularly for low and middle incomes.

Third, the investment climate has to be de-risked. Stable, credible fiscal frameworks, predictable regulation, and clear long-term signals on climate and digital rules reduce uncertainty and crowd in private investment. Public budgets—those €7.1 trillion in annual revenue—should be treated as an investment portfolio tilted toward high-multiplier uses: green transition, cross-border grids and rail, digital backbones, research ecosystems, and urban regeneration. Rigorous evaluation and sunset clauses can continuously reallocate money from low-return to high-return programmes.

Finally, all of this has to sit inside a coherent political narrative: that growth is not an end in itself, but the condition for social cohesion, strategic autonomy, and the capacity to act in the world. If citizens can see that higher growth translates into better services, fairer opportunities, and a credible green transition, they are more likely to support the reforms and investments that make a \$30 trillion EU plausible rather than rhetorical.

Discussion Points for Citizen Focus Groups and Town Halls

1. **Investment Priorities:** Which areas of public spending — education, research, green technology, or digital infrastructure — most effectively generate long-term wealth?
2. **Fiscal Fairness:** How should the tax burden be distributed between labour, consumption, and capital to encourage growth without deepening inequality?
3. **Innovation Incentives:** Should the EU expand direct funding for R&D or rely more on tax credits and private-sector partnerships?
4. **Infrastructure Strategy:** How can cross-border projects in energy, transport, and digital networks be financed to maximise spillover benefits across member states?
5. **Green Transition:** How can carbon pricing and environmental taxes be designed to stimulate innovation rather than penalise production?
6. **Human Capital:** What mix of education, training, and mobility programmes best equips citizens for the future labour market?
7. **Evaluation and Accountability:** How can cost-benefit analysis and impact assessment be embedded in EU spending to ensure measurable returns?
8. **Fiscal Transparency:** What tools — dashboards, participatory budgeting, open data — would help citizens see how their contributions translate into outcomes?
9. **Tax Competition vs. Coordination:** Should the EU harmonise corporate tax bases to prevent a race to the bottom, or preserve national flexibility?
10. **Citizen Voice:** How can ordinary Europeans influence fiscal priorities, ensuring that wealth generation aligns with public values rather than bureaucratic inertia?

This structure turns the infographic’s visual logic into a **deliberative framework** — a way for citizens to interrogate not only how Europe earns and spends, but how it defines prosperity itself.

Agregation challenges

Wealth generation is impossible without an apparatus capable of aggregating revenue at scale, with coherence, predictability, and legitimacy. A fragmented fiscal system cannot produce integrated prosperity. A coherent one can turn €7.1 trillion into a genuine engine of growth.

Let me lay this out in a continuous, museum-style exposition that matches your preferred narrative mode.

The Argument: Wealth Requires a Revenue-Aggregating Apparatus

To generate wealth, a political community must first be able to **pool resources** in a way that is stable, efficient, and strategically aligned. The EU's challenge is that it aspires to continental-scale outcomes—energy security, digital sovereignty, climate transition, research leadership—while relying on a fiscal architecture that remains largely national, uneven, and administratively incompatible.

A Union can only act like a Union if it can **aggregate revenue** like one.

Aggregation is not about centralisation; it is about **coherence**. It means that the fiscal system must be able to collect, coordinate, and deploy resources in a way that reflects the scale of the problems it seeks to solve. Without this apparatus, even €7.1 trillion becomes a patchwork of national budgets rather than a continental investment strategy.

The logic is simple:

Fragmented revenue → fragmented capacity → fragmented outcomes.
Aggregated revenue → strategic capacity → shared prosperity.

This is why the EU's wealth-generation debate is inseparable from its tax-coordination debate. You cannot maximise utility per euro if the euros themselves are trapped in 27 incompatible systems.

Why Aggregation Matters for Wealth Generation

A revenue-aggregating apparatus enables three things:

1. Economies of scale.

Large-scale investment in energy grids, digital infrastructure, and research ecosystems produces returns no single member state can achieve alone.

2. Risk-sharing.

Pooling revenue allows the Union to stabilise shocks—financial crises, pandemics, energy disruptions—without overburdening individual states.

3. Strategic autonomy.

Only aggregated fiscal capacity can fund the technologies, supply chains, and industrial capabilities needed for Europe to remain competitive globally.

Without aggregation, the EU remains a collection of fiscal islands trying to build a continental lighthouse.

Discussion Points for Citizen Focus Groups

These points help citizens interrogate the logic of aggregation without prescribing any political position:

1. What should the EU be able to finance collectively that member states cannot achieve alone?

Energy grids, defence capabilities, digital infrastructure, research?

2. How much fiscal fragmentation is compatible with a functioning single market?

Where does diversity become inefficiency?

3. Should certain revenue sources—carbon pricing, digital levies, financial-transaction taxes—be partially pooled?

What are the trade-offs?

4. How can revenue aggregation occur without undermining national sovereignty?

Is interoperability a better path than harmonisation?

5. What outcomes justify pooling revenue?

Lower energy prices, faster innovation, climate resilience, competitiveness?

6. How can citizens see and evaluate the impact of aggregated spending?

Dashboards, participatory budgeting, open-data platforms?

7. Should the EU adopt minimum standards for tax administration to reduce compliance burdens?

Would this help SMEs and cross-border workers?

8. How can aggregated revenue be protected from inefficiency or waste?

Impact assessments, sunset clauses, independent evaluation?

9. What is the right balance between redistribution and investment?

Should aggregated funds focus on cohesion, innovation, or both?

10. How can citizens influence decisions about what the EU does with aggregated revenue?

Assemblies, consultations, digital platforms?

Aggregation is the beginning of the cycle because only by pooling resources can a political community act at the scale required by its ambitions. Aggregated revenue creates capacity, giving institutions the fiscal strength to plan, coordinate, and execute long-horizon projects that no single actor could finance alone. Capacity then enables investment, directing resources toward innovation, infrastructure, skills, and resilience rather than dispersing them across fragmented, low-impact programmes. Investment generates growth by raising productivity, expanding opportunity, and strengthening the structural foundations of the economy. Growth enlarges the revenue base, because higher employment, higher wages, and higher output all translate into stronger fiscal inflows. An expanded revenue base, in turn, makes renewed aggregation possible, reinforcing the system's ability to act collectively. This renewal strengthens the legitimacy of the apparatus, because citizens can see the tangible returns produced by shared resources. As legitimacy grows, so does willingness to contribute, stabilising the fiscal architecture. The cycle becomes self-reinforcing: aggregation produces capacity, capacity produces investment, investment produces growth, and growth produces the next round of aggregation. In this way, a well-designed fiscal system becomes not a drain on prosperity but the engine that continuously regenerates it.

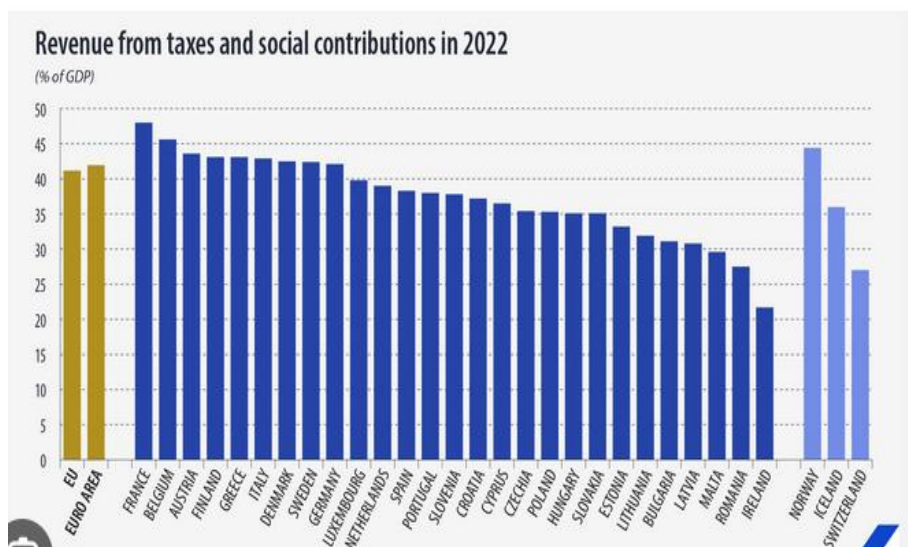
This pertains also to the cognitive bias of member state embedded academics who doesn't appreciate the in-betweenness of the EU as tax actor, and doesn't give much thought to how to improve on and how to proceed in the supranational tax let alone explain why it is in everyone's interests to do so.

Tax-to-GDP-ratio

The tax-to-GDP ratio is the outcome of a complex interaction between structural features of the economy, the design of the tax system, the administrative capacity of the state, and the underlying political and social settlement that determines how much taxation is considered legitimate. It is not a purely technical metric, but rather a condensed expression of how effectively a political community is able to translate economic activity into public revenue under conditions of domestic and international constraint.

At a structural level, the composition of the economy is decisive. Economies with a high share of formal wage employment, large-scale firms, and advanced service sectors tend to exhibit higher tax-to-GDP ratios because income flows are more visible, traceable, and legally structured. In contrast, economies characterised by agriculture, informal labour, micro-enterprises, and self-employment face inherent collection difficulties, since transactions are less documented and enforcement is more costly. The degree of urbanisation and financialisation further amplifies this effect, as concentrated economic activity in cities and formal financial channels increases taxability. Sectoral composition also matters: capital-intensive and high-productivity sectors tend to generate taxable surpluses more easily than subsistence or informal activities, which constrains revenue potential in lower-income economies.

Figure Stable Tax to GDP ratio



The Eurostat news item reports on **EU tax and social contribution revenue developments in 2022**, highlighting both revenue growth and changes in the tax-to-GDP ratio across Member States.

In 2022, total revenue from taxes and social contributions in the EU increased significantly in absolute terms, reaching about **€6.55 trillion**, reflecting a rise of around **€480 billion compared with 2021**. This increase occurred despite economic uncertainty and was largely driven by inflationary effects and nominal GDP growth.

However, the **EU tax-to-GDP ratio slightly declined**, moving from **41.5% in 2021 to 41.2% in 2022**, indicating that revenues grew broadly in line with economic output rather than outpacing it. In the euro area specifically, the ratio remained stable at **41.9%**, suggesting more balanced fiscal dynamics within that group.

The report also highlights significant **cross-country variation**. France, Belgium, and Austria recorded the highest tax-to-GDP ratios, all above 43%, while Ireland, Romania, and Malta recorded some of the lowest levels, with Ireland notably far below the EU average. This illustrates persistent structural divergence in fiscal capacity and tax system design across Member States.

A key takeaway is that despite overall revenue growth, **tax capacity differences remain substantial within the EU**, reflecting variations in economic structure, administrative efficiency, and tax policy choices. The data reinforces the broader conclusion that EU fiscal convergence remains incomplete, with significant disparities in how effectively Member States translate economic activity into public revenue.

Income levels are closely linked to this structural dimension, but the relationship is not purely mechanical. As GDP per capita rises, states typically expand administrative reach, formalisation increases, and demand for public goods such as infrastructure, education, and healthcare grows. This creates both the fiscal space and political justification for higher taxation. However, the trajectory is mediated by institutional development: some high-income economies maintain relatively low tax-to-GDP ratios due to political preferences for limited government, while others sustain high ratios based on strong redistributive norms and broad-based social insurance systems. The tax-to-GDP ratio therefore reflects not only economic capacity but also the institutionalisation of expectations about the role of the state.

Tax policy design constitutes a more direct lever of influence. Statutory tax rates on labour income, corporate profits, consumption, and property establish the theoretical upper bound of revenue mobilisation. However, the effective tax-to-GDP ratio depends heavily on the breadth of the tax base and the extent of exemptions, deductions, preferential regimes, and sector-specific incentives. A system with high nominal rates but extensive erosion of the tax base may yield lower revenue than a system with moderate rates and a broad base. The structure of value-added taxes, the treatment of capital gains, and the integration or separation of personal and corporate taxation all significantly shape realised outcomes. In addition, the balance between direct and indirect taxation influences both distributional outcomes and collection efficiency, with consumption taxes often providing more stable revenue streams in lower-capacity environments.

Administrative capacity and compliance are critical mediating factors that determine the gap between legal tax obligations and actual revenue collection. Even well-designed tax systems fail to achieve high tax-to-GDP ratios if tax administrations lack digital infrastructure, audit capacity, or enforcement credibility. Effective tax states rely on accurate taxpayer registries, third-party reporting systems, automated information exchange, and robust enforcement institutions capable of detecting underreporting and evasion. Conversely, weak administrative systems create opportunities for non-compliance, informalisation, and strategic underreporting of income. Corruption, bureaucratic fragmentation, and limited coordination between agencies further reduce effective tax capacity. In this sense, the tax-to-GDP ratio is as much a reflection of state capability as it is of tax law.

The size and persistence of the informal economy are closely linked to administrative strength but also reflect deeper structural and developmental factors. Informal activity reduces the taxable base by operating outside formal registration, reporting, and enforcement systems. This is particularly significant in labour-intensive sectors and in contexts where compliance costs are high relative to income levels. High levels of informality can create a self-reinforcing equilibrium in which limited trust in institutions discourages formalisation, thereby constraining revenue growth and limiting the state's capacity to expand services that might otherwise incentivise formal economic participation.

Political preferences and the underlying fiscal contract between citizens and the state shape the socially sustainable level of taxation. Tax-to-GDP ratios are higher in systems where citizens perceive taxation as closely linked to high-quality public services, redistribution, and social protection. In such systems, taxation is embedded in a broader legitimacy framework in which compliance is reinforced not only through enforcement but also through perceived reciprocity. In contrast, where trust in public institutions is weaker or where taxation is perceived as inefficient or inequitable, political resistance constrains the expansion of the tax base and limits willingness to support higher tax burdens. This introduces a feedback loop between state performance, legitimacy, and revenue capacity.

Globalisation and tax competition introduce an additional constraint by increasing the mobility of capital, profits, and high-skilled labour. Multinational firms can shift profits across jurisdictions through transfer pricing, intellectual property allocation, and financial structuring, while individuals and firms may relocate to lower-tax environments. This mobility places downward pressure on corporate tax rates and constrains national policy

autonomy, particularly in small open economies. Efforts at international coordination, such as minimum tax agreements and information exchange frameworks, are responses to this structural constraint, but their effectiveness depends on enforcement consistency and institutional depth.

Demographic trends and expenditure pressures influence the tax-to-GDP ratio indirectly by shaping the level of revenue required to sustain fiscal balance. Ageing populations increase demand for pensions, healthcare, and long-term care, while security challenges and climate adaptation may expand public spending requirements. These pressures do not automatically increase revenue but create structural incentives for governments to expand taxation or broaden the tax base. Where political systems are able to adjust, tax-to-GDP ratios may rise; where adjustment is constrained, fiscal deficits or debt accumulation may result instead.

Taken together, the tax-to-GDP ratio can be understood as the outcome of a multi-layered system in which economic structure determines the potential tax base, policy design defines the legal framework of taxation, administrative capacity determines enforcement effectiveness, and political legitimacy determines how much taxation can be sustained. It is therefore best interpreted not as a static fiscal indicator but as a dynamic measure of the relationship between economy, state capacity, and social consent under conditions of domestic complexity and global constraint. The European Commission could introduce a structured mechanism in its annual EU and Member State tax reports that gradually turns the tax-to-GDP ratio from a descriptive indicator into a coordinated **policy steering tool**, while still respecting fiscal sovereignty under the Treaties.

A first step would be to standardise the presentation of tax-to-GDP ratios across all Member States using a harmonised methodology that distinguishes between structural drivers (economic composition, informality, demographics) and policy-driven components (rates, bases, exemptions, enforcement quality). This would allow the Commission to move beyond simple benchmarking and begin identifying why divergences exist, not just that they exist.

Second, the Commission could introduce **country-specific “tax capacity assessments”** within the annual reports. These would estimate a range of plausible tax-to-GDP ratios for each Member State based on comparable economies with similar income levels, sectoral structures, and administrative capacity. The gap between actual and potential revenue would then be interpreted as a “tax capacity gap,” explicitly linking outcomes to policy and enforcement choices rather than structural constraints alone.

Third, policy recommendations could be framed in a **mutually reinforcing cycle between EU-level and national-level reports**. The EU report would identify systemic issues (for example, tax base erosion in mobile capital, uneven VAT compliance, or persistent informality), while Member State reports would translate these into targeted reforms (administrative modernisation, base broadening, reduced exemptions, improved reporting systems). Over time, these recommendations would converge into a shared reform vocabulary anchored in tax-to-GDP performance.

Fourth, the Commission could introduce a **“soft convergence corridor” for tax-to-GDP ratios**, not as a binding target but as an analytical benchmark range adjusted for structural differences. Countries below their estimated capacity range would receive tailored policy guidance, technical assistance, and administrative support, while those above would be analysed for best practices in compliance, base design, or institutional efficiency. This would create upward and downward learning dynamics without formal fiscal harmonisation.

Fifth, recommendations would need to explicitly link tax-to-GDP performance to broader EU priorities such as competitiveness, social cohesion, defence readiness, and green transition financing. This would ensure that increases in revenue capacity are framed not as abstract fiscal expansion, but as enabling conditions for shared European policy objectives.

Finally, to ensure legitimacy, the process should be embedded in a transparent governance framework involving peer review among Member States, publication of methodological assumptions, and structured dialogue with national parliaments. This would reinforce the perception that recommendations are not technocratic impositions but jointly constructed assessments of fiscal capacity and need.

Taken together, this approach would gradually transform the tax-to-GDP ratio from a retrospective statistical indicator into a forward-looking coordination device, aligning EU fiscal analysis with a more integrated understanding of state capacity, policy ambition, and implementation reality.

Table

Dimension	EU Annual Tax Report (System-Level Diagnosis)	Member State Report (Country-Specific Diagnosis)	Policy Recommendation Type	Mutual Reinforcement Mechanism
Tax Level (Tax-to-GDP ratio)	EU-wide distribution, convergence gaps, benchmark corridors	National deviation from estimated tax capacity range	“Soft convergence guidance” (not binding targets)	EU sets analytical corridor; MS responds with reform pathway
Tax Capacity Gap	Identification of structural underperformance clusters	Quantified gap vs peer-adjusted potential	Administrative + base-broadening reforms	EU defines methodology; MS implements closing strategy
Tax Structure Composition	Aggregate reliance on labour vs capital vs consumption	National distortions (overreliance or under-taxation)	Base rebalancing recommendations	EU provides comparative models; MS adapts structure
Compliance & Administration	EU compliance efficiency index (VAT gap, evasion rates)	Institutional bottlenecks in enforcement capacity	Digitalisation, audit reform, data integration	EU funds technical support; MS executes reforms
Informality & Shadow Economy	Cross-country informality mapping	Sector-specific informal activity analysis	Formalisation strategies, incentives, enforcement mix	EU coordinates standards; MS targets local implementation
Tax Competition & Mobility	Monitoring of harmful tax practices and profit shifting	Exposure to capital outflow and base erosion	Anti-avoidance alignment, base protection measures	EU coordination reduces race-to-bottom dynamics
Distributional Impact	EU inequality and fiscal capacity balance overview	National equity outcomes of tax system	Progressive adjustment or compensation mechanisms	EU sets analytical fairness framework; MS applies design
Fiscal Sustainability Needs	EU-wide fiscal pressure mapping (ageing, defence, climate)	Country-specific spending pressure vs revenue capacity	Revenue mobilisation strategy linked to policy goals	EU aligns fiscal needs with strategic priorities
Governance & Legitimacy	EU trust, transparency, and compliance indicators	National legitimacy and taxpayer trust levels	Transparency, simplification, participatory reforms	EU sets legitimacy standards; MS strengthens institutions

The framework operates through a dual-layer feedback structure in which the European Union level and the Member State level are functionally interdependent rather than simply parallel. At the EU level, the Commission develops comparative diagnostics that identify structural patterns across countries, establishes benchmark ranges for tax performance, and defines the systemic constraints that shape revenue capacity in a highly integrated economic space. This creates a common analytical language that allows fiscal performance to be interpreted not only in national terms but also in relation to EU-wide economic and institutional conditions.

At the Member State level, the focus shifts to implementation realities, including gaps between statutory tax design and actual revenue collection, variations in administrative capacity, and the specific institutional pathways through which reforms can be achieved. This level translates EU-level analysis into actionable policy sequences, taking account of domestic political economy constraints, enforcement capability, and administrative infrastructure.

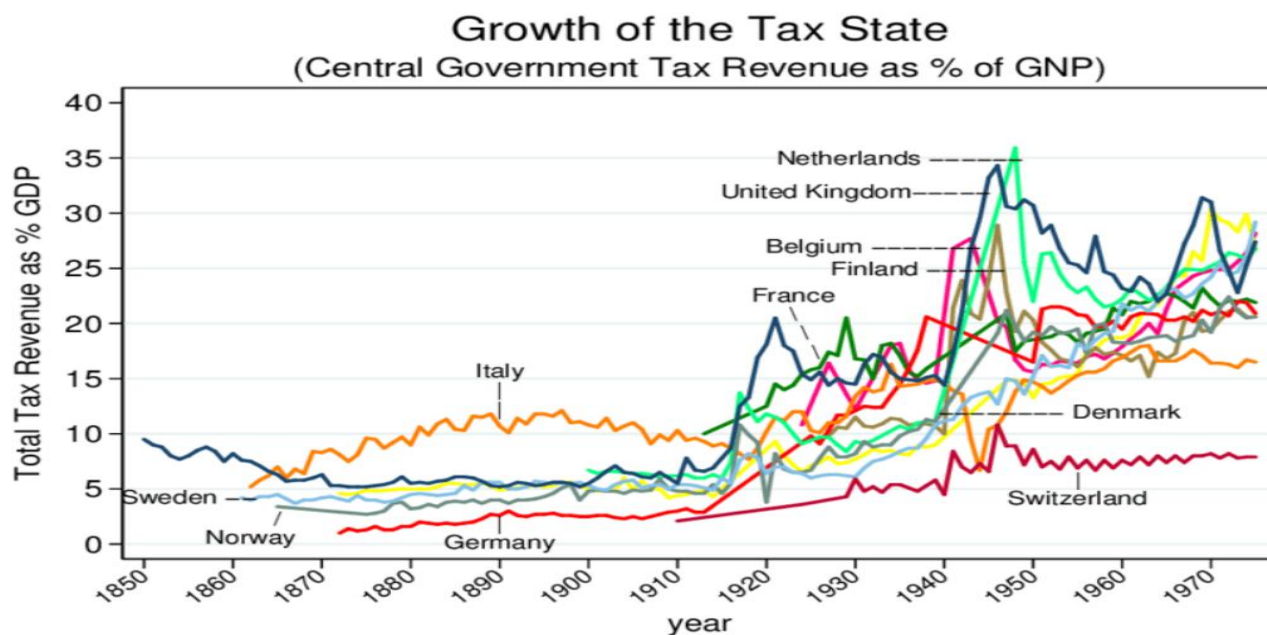
Taken together, these two layers generate a continuous feedback loop in which EU-level analysis increasingly shapes the direction and framing of national tax reforms, while Member State experiences and performance outcomes feed back into the refinement of EU benchmarking methodologies and comparative assessments. Over time, this interaction transforms the tax-to-GDP ratio from a static descriptive indicator into a dynamic governance signal that reflects not only fiscal capacity but also administrative effectiveness, policy coherence, and the evolving balance between economic integration and national implementation authority within the Union.

Europe's Tax State

Europe's tax state rose mainly because European countries built larger welfare states, financed pensions, health care, unemployment insurance, education, and other transfers; OECD data show public social spending has been much higher in many European countries than in most non-European peers, and the tax system also interacts with those benefits in ways that raise measured tax pressure. OECD data also show that tax-to-GDP ratios differ a lot across countries, with France and Denmark near the top in recent years while the United States is much lower.

Why Europe taxes more

The basic relationship is simple: richer and more institutionally developed countries usually collect more tax as a share of GDP, but the strength of that link depends on politics and state design, not income alone. Europe's higher tax states reflect broader social insurance systems, stronger redistribution preferences, and often more universal public services, which require stable revenue over time. In other words, Europe did not tax more just because it became richer; it taxed more because it chose to finance a larger public sector and welfare model.



Income and tax burden

There is usually a positive relationship between income per capita and tax capacity, because richer economies have more formal employment, more traceable transactions, and easier tax administration. But the relationship is not one-to-one: the United States has high income per capita but a much lower tax-to-GDP ratio than most

Western European countries, while France has both high income and very high taxation. Meanwhile, countries with lower income per capita often have weaker collection capacity, larger informal sectors, and narrower tax bases, which keep tax revenue lower even when statutory rates are not tiny.

Major-country pattern

Using recent cross-country comparisons, the pattern looks roughly like this: the US has high income per capita and relatively low tax-to-GDP; the EU's larger economies generally have higher tax-to-GDP; Japan and Brazil sit in the middle; Russia, China, and India are lower; and India is especially low on tax collection relative to its population and development level. Your attached chart shows the historical version of the same story: European countries moved from very low tax ratios in the 19th century to much higher ones in the 20th century as industrialization, wars, pensions, and welfare states expanded the role of government.

Approximate current pattern

Country/area	Income per capita	Tax as % of GDP	Typical interpretation
US	High	Low-medium	Rich, but smaller welfare state and lower tax burden
EU (especially Western/Northern Europe)	High	High	Rich plus large social insurance states
Japan	High	Medium-high	Advanced economy with sizable public spending, but less than Nordics/France
Brazil	Upper-middle	Medium	Significant tax burden for its income level, but with inefficiencies and complexity
China	Upper-middle	Lower-medium	Fast growth, but tax take below rich-country Europe
Russia	Upper-middle	Lower-medium	More resource dependence and weaker broad-based tax capacity
India	Lower-middle	Low	Large informal sector and limited tax base

What the chart means

The chart you attached is showing a long-run **rise** in tax revenue as a share of GDP, especially in Europe, not a sudden one-time jump. The main drivers were war financing, nation-building, pensions, public health systems, unemployment insurance, and later the expansion of universal welfare states. Denmark, Sweden, France, Belgium, and the Netherlands moved far above the old pre-1914 levels because they built broad tax-financed social states.

Does the public sector grow with more wars?

In general, **periods of sustained or repeated conflict tend to expand the state**, especially in advanced economies.

Wars increase public spending on defence, logistics, intelligence, and infrastructure, which often leads to higher taxation and stronger fiscal capacity. Over time, these wartime systems frequently become permanent administrative structures—what is sometimes called a “ratchet effect” in state growth.

In Europe and other advanced economies, both World Wars were followed by lasting expansions in taxation, welfare systems, and central administrative capacity. This occurred because wartime mobilisation required mass taxation, income tracking, and coordinated resource allocation, which later proved useful for welfare states.

However, this is not a universal rule. In weaker states, repeated conflict can instead **destroy fiscal capacity**, reduce compliance, and shrink the formal tax base. So the effect depends on whether institutions are strong enough to convert wartime mobilisation into long-term governance capacity.

In modern Europe, direct large-scale war is less relevant than **security spending, geopolitical tension, and strategic autonomy pressures**, which still tend to increase state involvement in the economy but more gradually through defence budgets, industrial policy, and digital security infrastructure.

How to increase income per capita in Europe ?

Raising GDP per capita in Europe is primarily about increasing **productivity per worker**, since demographic growth is low or negative.

The most important driver is **productivity growth through innovation and technology adoption**. Europe can raise income per capita by accelerating diffusion of AI, automation, and advanced manufacturing technologies, especially in lagging sectors such as construction, retail, and public administration.

A second driver is **higher labour market participation**, particularly among women, older workers, and migrants. Even without population growth, increasing participation expands total output per capita.

A third factor is **human capital investment**, including higher-quality education, vocational training, and lifelong learning systems aligned with digital and green transitions. Countries with stronger skills systems tend to have higher productivity levels.

A fourth lever is **capital deepening**, meaning higher levels of investment per worker in machinery, infrastructure, and digital systems. Europe has relatively strong savings but uneven investment efficiency, especially in scaling innovative firms.

A fifth mechanism is **reducing regulatory and market fragmentation inside the EU**, particularly in services, capital markets, and digital sectors. Fragmentation prevents firms from scaling efficiently across the single market, which limits productivity gains.

A sixth area is **innovation system reform**, including faster commercialisation of research, stronger venture capital ecosystems, and improved university-industry links. Europe performs well in research but less well in scaling innovations.

A seventh factor is **energy and infrastructure efficiency**, since high energy costs and slow infrastructure deployment reduce industrial competitiveness and output per worker.

Finally, **institutional quality and administrative efficiency** matter, because slower permitting, complex taxation, and fragmented regulation reduce investment speed and productivity growth.

War and security pressures have historically acted as powerful catalysts for the expansion of state capacity, particularly through the mobilisation of fiscal resources, administrative reach, and coercive enforcement mechanisms necessary to sustain collective defence efforts.

In many advanced economies, periods of sustained conflict have led to the creation or consolidation of modern taxation systems, centralised bureaucracies, and large-scale public finance infrastructures. However, these effects are not inherently growth-enhancing. They only translate into durable increases in income and welfare when institutional systems are sufficiently robust to convert wartime mobilisation into peacetime productivity gains, rather than allowing expanded state capacity to dissipate once immediate security pressures recede.

The decisive factor is therefore institutional quality: strong states are able to transform wartime fiscal extraction and coordination into long-term capabilities such as efficient public administration, advanced infrastructure systems, and high-performing education and innovation ecosystems.

Weak institutions, by contrast, often experience temporary expansion followed by stagnation, inefficiency, or fiscal strain. In this sense, security pressures are not a substitute for economic development but a stress test of whether governance systems can convert concentrated collective mobilisation into sustained productivity improvements.

For Europe today, the central challenge is not the further expansion of the state as an end in itself, but the strategic enhancement of productivity per unit of labour and capital within an already highly developed fiscal framework.

Given demographic stagnation and already elevated public expenditure ratios, the binding constraint on income per capita growth is not fiscal capacity but productivity dynamics. This places emphasis on deepening economic integration, accelerating innovation diffusion, strengthening skills formation systems, and improving the efficiency of public and private investment allocation.

In practical terms, this means reducing structural fragmentation within the single market, particularly in services, capital markets, and digital sectors, where scale effects remain underexploited. It also requires strengthening innovation ecosystems so that research is more effectively translated into scalable commercial applications.

Human capital development becomes central, particularly through adaptive education and lifelong learning systems aligned with technological and green transitions. At the same time, improving investment efficiency—through faster permitting, streamlined regulation, and more effective allocation of public funds—becomes critical for sustaining productivity growth.

Taken together, Europe's long-term income per capita trajectory depends less on expanding the fiscal footprint of the state and more on enhancing the quality of its institutional coordination function. The objective is not a larger state, but a more effective one: capable of enabling high productivity, reducing internal frictions, and converting its already strong institutional base into sustained economic dynamism.

Summary

The best summary is: higher income per capita helps countries tax more, but the biggest difference is political choice about the size of the state. Europe generally chose a much larger welfare state than the US, so its tax-to-GDP ratios are higher even when income levels are similar. China, Brazil, Russia, and India generally collect less tax as a share of GDP than rich European states because they have different state structures, lower average income, and larger informal economies.

Tax-to-GDP ratios and related fiscal indicators across major economies reveal clear structural clustering rather than a simple linear relationship with income levels. European countries such as France, Germany, and Italy consistently exhibit the highest tax-to-GDP ratios, typically around 40–45 percent, reflecting extensive welfare states, broad tax bases, and strong administrative capacity. The United Kingdom sits lower, at roughly 33–35 percent, reflecting a more market-oriented fiscal model. The United States shows a significantly lower ratio of around 25–27 percent despite high GDP per capita, illustrating that economic wealth alone does not determine taxation levels.

Japan occupies an intermediate position, with tax-to-GDP around 34–35 percent and moderate personal income tax rates, reflecting a hybrid system combining advanced welfare spending with relatively restrained taxation. China, Brazil, India, and Russia all exhibit lower tax-to-GDP ratios, generally between 17 and 34 percent, reflecting differences in administrative capacity, informality, and development stage. India is at the lower end due to high informality and limited tax base formalisation, while Brazil's higher ratio reflects heavy reliance on indirect taxation despite structural inefficiencies.

Across all countries, personal income tax rates also vary significantly, with Europe showing the highest effective burdens, often above 35–40 percent, while the US, Asia, and emerging economies tend to have lower effective rates. This indicates that high tax-to-GDP ratios are not solely driven by income tax levels but by broader tax system design, including social contributions and consumption taxes.

Correlation analysis shows only a moderate relationship between GDP per capita and tax-to-GDP ratios globally, with stronger divergence in high-income countries. In lower-income countries, tax capacity constraints dominate, limiting revenue collection regardless of policy intent. In higher-income countries, institutional design and political choices become the main determinants of tax levels.

Europe's elevated tax-to-GDP ratios are best explained by structural institutional factors rather than income alone. These include comprehensive welfare states, high compliance cultures, strong administrative systems, and political preferences for redistribution. High trust in public institutions reduces enforcement costs and enables broader tax bases.

In contrast, the United States operates a lower-tax equilibrium with greater reliance on private provision and higher tolerance for inequality. This produces a weaker link between income levels and tax burdens compared to Europe. Emerging economies show constrained capacity due to informality, weaker enforcement systems, and narrower tax bases.

Tax systems with higher digitalisation and administrative integration tend to achieve higher effective revenue without necessarily increasing statutory rates. This highlights the importance of enforcement quality over nominal tax design. Countries with strong compliance systems generate more stable and predictable revenue flows.

The comparison shows that tax-to-GDP ratios are shaped by a combination of economic structure, institutional capacity, and political economy rather than GDP per capita alone. High-income countries diverge significantly based on welfare state design and fiscal preferences. Middle-income countries exhibit hybrid outcomes influenced by both development constraints and policy choices.

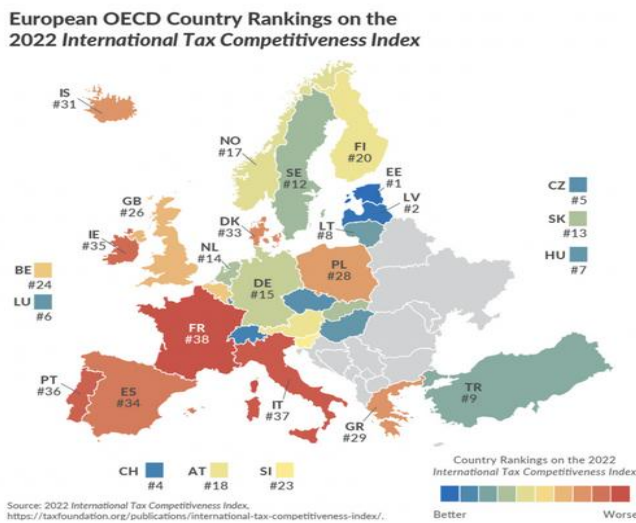
Overall, Europe's higher tax-to-GDP ratios reflect a stable equilibrium between state capacity, political legitimacy, and redistributive institutional design. Other regions differ primarily in their balance between market provision, state capacity, and tolerance for inequality. The global pattern is therefore one of institutional divergence rather than purely economic convergence.

EU's Tax competitiveness ?

The Organisation for Economic Co-operation and Development does not construct a unified ranking of tax competitiveness among the Member States of the European Union. Rather, it provides a conceptual and analytical framework for evaluating tax systems, grounded in principles such as efficiency, neutrality, simplicity, and growth-friendliness.

Within this framework, a "competitive" tax system is not defined solely by low statutory rates, but by its capacity to raise revenue with minimal distortion to economic decision-making, while maintaining fairness and administrative feasibility. The OECD's extensive work on base erosion and profit shifting, particularly through the Base Erosion and Profit Shifting initiative, further refines this approach by emphasizing the alignment of taxation with value creation and the reduction of artificial profit allocation across jurisdictions.

Figure



In practice, comparative assessments of tax competitiveness within Europe are often derived from composite indices such as the International Tax Competitiveness Index, which operationalize OECD-inspired principles into measurable indicators. These indices typically evaluate corporate taxation, personal income taxation, consumption taxes, property taxes, and cross-border tax rules. Countries that perform well tend to combine relatively low marginal tax rates on capital with broad tax bases and administratively simple systems. Conversely, lower rankings are often associated with complex tax codes, high effective tax rates, and significant distortions arising from exemptions or targeted incentives. While such indices provide a useful comparative lens, they remain external interpretations rather than official OECD instruments.

The absence of a unified ranking reflects a deeper structural characteristic of the EU: taxation remains largely a competence of individual Member States. As a result, the Union does not function as a single tax jurisdiction but rather as a composite system of interacting national regimes. This fragmentation generates both competitive dynamics and coordination challenges. On the one hand, Member States engage in forms of tax competition to attract investment, particularly through corporate tax rates and preferential regimes. On the other hand, such competition can undermine the integrity of the internal market by facilitating profit shifting, increasing compliance costs, and eroding national tax bases. OECD-led initiatives, including the BEPS framework and the global minimum tax under Pillar Two, represent attempts to mitigate these tensions by establishing common standards that limit harmful tax practices while preserving a degree of national autonomy.

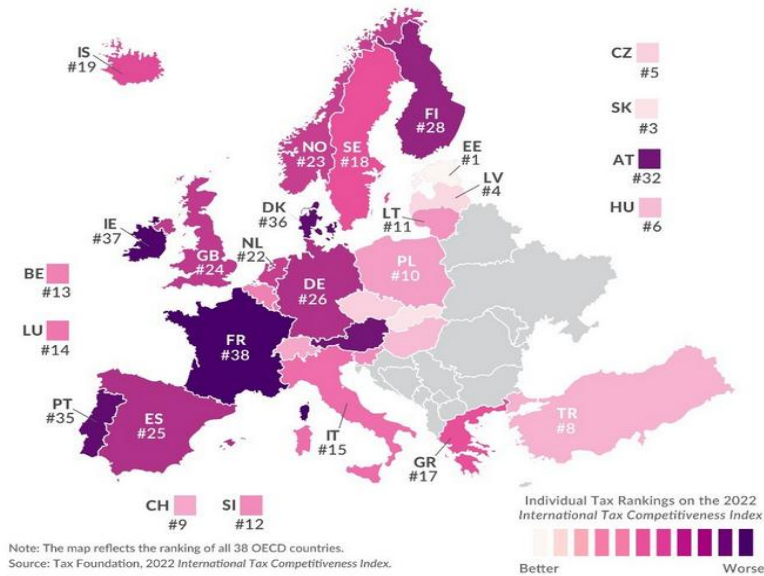
The implications for the EU are significant. First, the coexistence of multiple tax systems within a single market introduces inefficiencies that weaken the Union’s overall competitiveness relative to more integrated jurisdictions. Firms operating cross-border within the EU face administrative burdens that do not arise in unified systems, thereby increasing the cost of capital allocation and reducing the attractiveness of the internal market. Second, intra-EU tax competition can produce suboptimal outcomes, as Member States may prioritize short-term investment attraction over long-term revenue stability and coordination. Third, the growing importance of global tax governance, particularly through OECD frameworks, constrains unilateral policy choices and necessitates a more coordinated European response.

A coherent EU and Member State taxation competition plan would therefore require the articulation of several interrelated elements. At the level of tax system design, the establishment of a common corporate tax base represents a foundational step. Proposals such as a consolidated base with formula apportionment would reduce opportunities for profit shifting within the Union and provide greater certainty for multinational enterprises. While full harmonization of tax rates remains politically unlikely, a coordinated approach to rate setting—anchored by minimum standards such as the global minimum tax—could mitigate harmful competition while preserving limited flexibility for national policy preferences.

Figure

Comparing Europe's Tax Systems: Individual Taxes

*Individual Tax Component Rankings of European OECD Countries in the 2022
International Tax Competitiveness Index*



At the administrative level, competitiveness depends not only on statutory rules but also on the efficiency of tax administration. The development of integrated digital infrastructures, including a single interface for tax compliance across Member States, would substantially reduce compliance costs and enhance transparency. Enhanced cooperation among national tax authorities, including real-time information exchange and joint audits, would further strengthen enforcement and reduce the incidence of double taxation or non-taxation. Such measures would move the EU closer to functioning as a de facto single tax administration, even in the absence of full legal unification.

At the level of tax partnership and governance, the adoption of cooperative compliance models offers a pathway to reconcile enforcement with certainty. By fostering structured dialogue between tax authorities and large taxpayers, Member States can provide advance certainty on complex transactions while ensuring adherence to agreed standards. Extending such approaches across the EU, supported by common guidelines and dispute resolution mechanisms, would enhance trust and reduce litigation. Moreover, aligning tax policy with broader strategic objectives—such as digitalization, sustainability, and capital market integration—would reinforce the role of taxation as an instrument of economic coordination rather than fragmentation.

In sum, the OECD provides the normative foundation for evaluating tax systems, while comparative rankings translate these principles into empirical benchmarks. The EU's challenge lies not in the absence of competitive elements within individual Member States, but in the lack of systemic integration across the Union. A comprehensive taxation competition plan would therefore need to balance harmonization and sovereignty, combining a common tax base, coordinated standards, integrated administration, and cooperative governance. Such an approach would not eliminate competition entirely but would reframe it within a structured and mutually beneficial framework, enhancing the EU's position as a coherent and competitive economic entity in the global tax landscape.

The gap in tax revenue performance between Southern and Northern European states is real, but it is often misinterpreted as a simple question of discipline or political choice. Across the European Union, Northern states such as Denmark, Sweden, and the Netherlands tend to collect a higher share of GDP in taxes than Southern states such as Italy, Greece, Spain, and Portugal. This divergence is not primarily explained by differences in statutory tax rates, but rather by structural and institutional factors that shape how effectively taxes are collected.

A central factor is the composition of the economy. Southern European countries generally have larger informal sectors, higher levels of self-employment, and a greater prevalence of small and medium-sized enterprises. These features make income and transactions more difficult to observe and verify, thereby reducing the effective tax base. In contrast, Northern European economies are more formalized, with a higher share of wage employment and large firms, which facilitates withholding and third-party reporting. As a result, even when tax laws appear similar on paper, the actual capacity to generate revenue differs significantly.

Administrative capacity also plays a decisive role. Tax collection depends not only on legal frameworks but on the ability of the state to enforce them. Northern European tax administrations tend to be highly digitalized, integrated, and capable of real-time data processing, which increases compliance and reduces opportunities for evasion. In parts of Southern Europe, tax administrations have historically been more fragmented, slower to adopt digital systems, and less equipped to carry out systematic audits. The Organisation for Economic Co-operation and Development has repeatedly highlighted that compliance is closely linked to the perceived probability of detection and the efficiency of enforcement institutions.

Equally important is the role of tax morale and institutional trust. In Northern Europe, there is generally a stronger perception that tax revenues are translated into effective public goods, which reinforces willingness to comply. This creates a virtuous cycle in which high compliance supports strong public services, and strong public services sustain compliance. In parts of Southern Europe, historical experiences of clientelism, uneven service delivery, and political fragmentation have weakened this relationship. Where citizens perceive taxation as unfair or ineffective, evasion becomes more socially tolerated, further undermining state capacity.

Policy design contributes to these differences as well. Southern tax systems often rely on narrower bases, more exemptions, and greater complexity, which create opportunities for avoidance and reduce effective revenue collection. Northern systems tend to emphasize broader bases and simpler structures, even when overall tax levels are high, thereby limiting distortions and improving compliance.

In the Balkans, these challenges are often more pronounced, although there is variation across countries. Weak public sectors in parts of the region are characterized by limited administrative capacity, politicization of institutions, and persistent corruption. It is more accurate to describe this not simply as a moral or ethical failure, but as a problem of institutional weakness in enforcement, accountability, and governance structures. These weaknesses directly affect fiscal capacity, as lower administrative effectiveness leads to reduced revenue collection relative to economic potential.

The type of state that emerges from such conditions is one with constrained fiscal resources, higher dependence on external funding, and a more limited ability to implement complex regulatory frameworks. This has important implications for participation in the EU. Because the EU relies heavily on Member States to enforce common rules, disparities in administrative capacity translate into uneven implementation across the Union. This can create distortions within the internal market and complicate collective policymaking.

The question of whether such states are more exposed to dominance requires careful qualification. Weaker tax administrations and public sectors can reduce a country's effective bargaining power, particularly when it depends on EU transfers or external financial support. They may also increase vulnerability to regulatory capture and reduce the ability to shape or resist policy initiatives originating from stronger states or EU institutions. At the same time, formal institutional arrangements within the EU, such as unanimity in tax matters, preserve legal sovereignty for all Member States. What differs is not formal authority but practical influence and capacity to act.

There is also a dynamic dimension to consider. Weak fiscal capacity limits investment in public administration, education, and the judiciary, which in turn constrains future improvements in tax collection and governance. However, EU integration can partially offset this through conditionality, funding, and administrative harmonization, which may strengthen institutional capacity over time.

In sum, the divergence between Northern and Southern Europe in tax revenue is primarily rooted in differences in economic structure, administrative effectiveness, and institutional trust rather than simple policy choice. In

the Balkans, weaker public sectors and governance challenges translate into lower fiscal capacity and uneven rule enforcement, which can reduce effective influence within the EU and increase reliance on external support. The broader implication for the EU is the persistence of asymmetries in state capacity, which complicates the functioning of a system that depends on consistent implementation of common rules across diverse national contexts.

The Organisation for Economic Co-operation and Development reports for 2025–2026 point to a clear strengthening of competition enforcement across jurisdictions. Competition authorities are becoming more active and better resourced, with real-term budget increases of around 4.7 percent and staff growth of just over 3 percent. This expansion signals a renewed political and institutional commitment to competition policy as a core driver of economic performance within the European Union and beyond.

Enforcement patterns show a nuanced shift rather than a simple increase in cases. Although the number of cartel decisions has slightly declined, leniency applications have risen to their highest level since 2016. This suggests that firms are increasingly willing to cooperate with authorities, which may reflect stronger detection tools and higher perceived risks of non-compliance. At the same time, there has been a noticeable resurgence in abuse of dominance investigations, indicating greater scrutiny of large firms with market power, particularly in concentrated or digital markets.

Merger control has also become more interventionist. While outright prohibitions remain relatively rare, there has been a clear increase in mergers approved subject to remedies. This reflects a more calibrated approach in which authorities allow transactions to proceed but impose structural or behavioural conditions to preserve competition. The overall trend points to more sophisticated enforcement rather than simply more restrictive policy.

Alongside enforcement, the OECD emphasizes structural reform as essential for long-term competitiveness. The Foundations for Growth and Competitiveness framework highlights the importance of product market regulation, labour market functioning, skills development, and energy security. These areas shape the broader environment in which firms compete, and weaknesses in them can undermine the effectiveness of competition law enforcement.

A regional dimension is particularly evident in the Western Balkans. The OECD's competitiveness assessments for the region identify significant gaps in regulatory quality, digital transformation, environmental sustainability, and investment conditions. These gaps are directly relevant for EU integration, as convergence requires not only legal alignment but also the administrative and economic capacity to implement and sustain competitive markets.

To support reform, the OECD provides several analytical tools. The Competition Assessment Toolkit helps governments identify and remove unnecessary regulatory barriers to competition. The Product Market Regulation indicators measure the extent to which policies restrict or enable competition across sectors, offering a comparative benchmark for reform. Broader competitiveness reports complement these tools by examining factors such as productivity, cost structures, and macroeconomic conditions.

Taken together, these findings point to a dual dynamic. On the one hand, enforcement is becoming more intensive and better targeted, with increased resources and more sophisticated instruments. On the other hand, there is a growing recognition that enforcement alone is insufficient without deeper structural reforms. For the EU and its neighbouring regions, the challenge is therefore not only to strengthen competition authorities but also to align regulatory frameworks and institutional capacity in ways that sustain competitive markets over time.

Comparison between federative polities

A comparative institutional analysis of EU tax coordination and federal or quasi-federal systems such as the United States, Canada, and Switzerland turns on one central question: how do different constitutional architectures organise the relationship between tax base definition, rate-setting autonomy, and mechanisms of cross-border profit allocation, especially formula apportionment and consolidated bases? The EU is structurally

distinct because it operates a single market without a full fiscal federation; this makes it an ideal contrast case for systems where a federal tier can unilaterally define a common base and, in some instances, impose formula apportionment.

The first parameter is constitutional allocation of taxing power. In the EU, corporate income taxation remains formally with the Member States; the Union coordinates through directives and soft law, relying on internal market competences and state aid control. By contrast, the United States and Canada possess a federal corporate income tax with states or provinces levying their own taxes on top of a federally defined base, while Switzerland combines a federal tax with strong cantonal autonomy. This means that in federal systems, a central tier can define a reference base that becomes the default for sub-central units, whereas in the EU the “centre” lacks autonomous taxing power and must legislate through consensus.

The second parameter is the existence and design of a common or consolidated tax base. In the EU, attempts such as the Common Consolidated Corporate Tax Base (CCCTB) and its successors seek to create a single base for groups, with consolidation and subsequent allocation across Member States. This remains politically contested and only partially realised. In the United States, the federal corporate tax provides a de facto common base, while states often start from federal taxable income and then apply adjustments; consolidation is handled through group rules and combined reporting. Canada follows a similar pattern, with provinces largely piggybacking on the federal base. Switzerland, by contrast, has coordination but no fully consolidated base across cantons, reflecting its strong fiscal decentralisation.

The third parameter is formula apportionment. Here the contrast is sharp. US states widely use formula apportionment (historically three-factor, increasingly sales-only) to allocate the tax base of multistate corporations. This creates a functioning, if imperfect, system of sub-federal profit allocation anchored in a common federal base. Canada uses more limited formula allocation, particularly for financial institutions and interprovincial income, while Switzerland relies more on negotiated allocation and administrative practice than on rigid formulas. The EU, in turn, has treated formula apportionment primarily as a proposal within the CCCTB and as an implicit logic in Pillar One’s Amount A, but has not embedded it as a general mechanism for intra-EU allocation. The absence of a federal tier with taxing power makes formula apportionment politically more sensitive, because it is perceived as directly redistributive among sovereign states rather than among sub-central units of a federation.

The fourth parameter is decision-making and veto structure. In the EU, tax matters are subject to unanimity in the Council, giving each Member State an effective veto over base consolidation and apportionment rules. This contrasts with the United States and Canada, where federal tax legislation is adopted by ordinary majorities and sub-central units cannot veto federal base design, even if they can adjust their own overlays. Switzerland sits between these models: cantons enjoy strong autonomy and political weight, but federal reforms do not require full cantonal unanimity. The EU’s unanimity rule thus makes deep integration—such as a fully consolidated base with formula apportionment—structurally harder to achieve than in classic federations.

Placed side by side, these parameters show that federal systems achieve coherence in corporate taxation by anchoring sub-central diversity in a federal base and, where relevant, a federal or widely accepted apportionment formula. The EU, by contrast, must construct coherence through coordination instruments, soft-to-hard law transposition, and incremental harmonisation of bases (ATAD, interest limitation, CFC rules, Pillar Two implementation) without the shortcut of a federal tax. This makes the EU’s path to a common base more gradual, more legal-integration-driven, and more dependent on political bargains among states that remain fully sovereign in tax matters.

Formula apportionment illustrates the difference particularly well. In the United States, it is a technique used within an accepted federal framework to allocate a base that is already largely standardised. In the EU, it would be a constitutive choice about how to share tax sovereignty among states, with no federal arbiter above them. Canada and Switzerland show intermediate models: both manage to combine sub-central autonomy with some degree of coordinated allocation, but they do so against the backdrop of a recognised federal constitutional order, which the EU lacks.

Table

System	Constitutional structure	Corporate tax power location	Common base/consolidation	Formula apportionment use	Veto structure for change
European Union	Supranational, non-federal	Member States (EU only coordinates)	Emerging/hybrid, partial harmonisation	Proposed/limited (CCCTB, Pillar One logic)	Unanimity in Council, strong national veto
United States	Federal	Shared, but federal CIT dominant	Federal base, separate state bases	Extensive at state level (SALES/FACTOR)	Simple federal majority, no state veto
Canada	Federal	Shared, provinces piggyback	Federal base, provincial overlays	Limited, some formula allocation	Federal–provincial bargaining, no veto
Switzerland	Federal	Confederation + cantons	No full consolidation, coordination	Limited, negotiated allocation	Strong cantonal autonomy, but no unanimity

Tax plays a distinctive, almost constitutional role in the public policy architecture of federative and quasi-federative polities. When you evaluate it comparatively, across systems as different as the EU, the United States, Canada, and Switzerland, a single insight emerges: taxation is not merely a revenue instrument but the primary mechanism through which political authority is unified, coordinated, or held apart. In other words, tax is the grammar of public power. How it is structured determines how a polity coheres.

To see this clearly, it helps to treat tax not as a technical domain but as a field in which three functions converge. First, tax is a financing tool: it funds the collective goods that justify the existence of a political community. Second, it is a steering instrument: it shapes behaviour, investment, and distribution. Third, it is a constitutional signal: it expresses who decides, who pays, and who benefits. In federative systems, these three functions are distributed across levels of government, and the way they are distributed determines the degree of unity or fragmentation the system can sustain.

In the United States, federal supremacy in corporate and personal income taxation creates a strong centripetal force. The federal government defines the core tax base, and states build on top of it. This produces a coherent fiscal centre that can pursue national public policy goals—redistribution, macroeconomic stabilisation, industrial strategy—while still allowing states to differentiate themselves. Tax thus becomes the mechanism through which unity is produced without eliminating diversity.

Canada follows a similar logic, though with more pronounced provincial autonomy. Provinces piggyback on the federal base, but they retain meaningful discretion over rates and certain structural elements. The result is a layered system in which public policy can be coordinated across levels because the base is shared, even if the political authority over rates is not. Tax here functions as a hinge: it connects the federation without fully consolidating it.

Switzerland represents the opposite pole. Cantons possess strong taxing powers, and the federal tier plays a coordinating rather than dominating role. Public policy is therefore negotiated rather than imposed. Taxation

becomes the arena in which cantonal autonomy is preserved, and national coherence is achieved through horizontal coordination rather than vertical hierarchy. Unity is produced through balance, not centralisation.

The EU is the outlier because it is not a federation but a single market with sovereign states. It lacks a federal tax power, yet it must manage cross-border economic integration. Tax therefore becomes the most sensitive and structurally revealing domain. The Union can harmonise bases, constrain harmful practices, and build enforcement infrastructures, but it cannot unilaterally define a common tax base or impose formula apportionment. Public policy goals—fair competition, investment neutrality, fiscal stability—must be pursued through coordination rather than command. Tax thus becomes the test of whether a non-federal polity can achieve functional unification without constitutional federalisation.

Across all these systems, the role of tax in public policy and unification can be understood as a spectrum. At one end, tax centralisation creates a strong federal core capable of pursuing unified public policy. At the other, tax decentralisation preserves local autonomy but requires sophisticated coordination to avoid fragmentation. The EU sits in the middle, attempting to build a coherent tax order through legal integration and administrative harmonisation rather than through constitutional authority.

What matters, ultimately, is that taxation is the institutional site where the political identity of a federative polity is negotiated. It determines whether unity is achieved through hierarchy, coordination, or equilibrium. It shapes the capacity of the system to act collectively. And it reveals the underlying constitutional settlement: who decides, who contributes, and who benefits.

The implications and lessons for the EU become clearest when you treat taxation not as a technical subsystem but as the structural medium through which federative polities generate coherence, authority, and collective capacity. In that sense, the comparative analysis of the United States, Canada, and Switzerland yields a set of insights that are directly relevant to the EU's ongoing struggle to build a functional, if not fully federal, tax order.

The first lesson is that **a common tax base is the anchor of public policy coherence**. In every mature federation, the federal tier defines the core tax base, and sub-central units build on top of it. This does not eliminate diversity, but it creates a shared fiscal language that enables coordinated public policy. For the EU, the implication is that base harmonisation—through directives, minimum standards, and BEPS 2.0 transposition—is not optional. It is the precondition for any meaningful capacity to act collectively in industrial policy, digital regulation, climate investment, or macroeconomic stabilisation.

The second lesson is that **unity does not require centralisation, but it does require a stable centre**. The United States achieves unity through federal supremacy; Switzerland achieves it through dense horizontal coordination; Canada sits between the two. The EU cannot replicate federal supremacy, but it can—and must—construct a stable centre through legal integration, administrative harmonisation, and shared enforcement infrastructures. The centre in the EU is not a taxing authority but a coordinating authority. Its strength lies in its ability to stabilise expectations, reduce divergence, and create predictability across twenty-seven sovereign administrations.

The third lesson is that **tax is the mechanism through which economic integration becomes politically sustainable**. Federations use tax to manage distributional tensions, correct imbalances, and ensure that the benefits of integration are broadly shared. The EU faces the same challenge but with fewer tools. This makes the construction of a common base, the implementation of Pillar Two, and the reduction of harmful tax competition essential not only for efficiency but for legitimacy. Without a coherent tax architecture, the single market risks becoming a source of centrifugal pressure rather than cohesion.

The fourth lesson is that **decision-making rules shape the depth of integration**. Unanimity in the EU creates a structural ceiling on how far tax coordination can go. Federal systems avoid this constraint: no US state can veto federal tax reform; no Canadian province can block federal base design. The EU must therefore learn to work within its constraint by building coalitions, sequencing reforms, and using soft-law convergence to prepare the ground for hard-law change. The lesson is not that unanimity must be abolished, but that the EU must develop governance techniques that make unanimity less paralysing.

The fifth lesson is that **corporate behaviour responds to system design, not declarations**. In federations, firms adapt to a stable, predictable allocation system—whether formula apportionment in the US or coordinated cantonal rules in Switzerland. The EU’s fragmented base and divergent administrative practices create opportunities for arbitrage that undermine both revenue and fairness. The implication is that the EU must treat corporate adaptation as a structural variable: harmonised reporting, interoperable data systems, and coordinated audits are as important as legal directives.

The final lesson is that **the EU’s path is not toward federalisation but toward functional integration**. The EU will not become the United States; it will not acquire a federal corporate tax. But it can approximate the functional outcomes of a federation—coherence, predictability, reduced arbitrage, shared fiscal capacity—through a combination of legal harmonisation, administrative integration, and iterative coordination. The lesson from comparative systems is that federations succeed not because they centralise everything, but because they build architectures that make diversity governable.

Taken together, these lessons point toward a single conclusion: for the EU, taxation is not merely a policy domain but the structural test of whether a non-federal polity can generate the coherence required for collective action. The implications are profound. A more unified tax base strengthens the single market, stabilises public finances, enhances fairness, and increases the EU’s capacity to act as a geopolitical and economic actor. In short, tax is the hinge on which the EU’s future coherence turns.

Implementation Strategy

The transition toward a fiscal-military capacity must be carefully sequenced to reflect Europe’s political diversity, institutional complexity, and sensitivity around sovereignty in defence matters. It cannot be imposed as a sudden structural shift, but rather must emerge through gradual layering of legitimacy, capability, and trust across Member States.

In the initial phase, the emphasis should be placed on building political consensus and normalising the idea that security is now inseparable from economic stability. This involves embedding defence and resilience considerations into existing budgetary and economic governance frameworks rather than creating immediately separate structures. Structured consultations with Member States, national parliaments, and relevant EU institutions would be essential, alongside rigorous impact assessments that clarify fiscal implications, distributional effects, and strategic benefits. At this stage, the objective is not institutional redesign, but conceptual convergence around the necessity of collective security capacity.

The second phase would involve more concrete institutional adaptation, particularly within the EU’s budgetary and own-resources framework. This would require careful legal and political negotiation to expand the fiscal space available for collective security-related expenditure without undermining national budget sovereignty. During this stage, a European Security Contribution could be introduced in a calibrated form, supported by clear governance rules, transparency safeguards, and agreed allocation principles. Coordination mechanisms between Member States and EU institutions would need to be strengthened to ensure coherence between national defence planning and emerging EU-level capabilities.

In the third phase, the system would move from design to operational reality. An EU Security Fund would be established and gradually scaled, financed through the agreed contribution mechanism and potentially supplemented by joint borrowing instruments where politically feasible. At this point, joint procurement initiatives in defence and dual-use technologies would be expanded in a structured manner, reducing fragmentation in European defence markets while improving strategic autonomy. Parallel investment in secure digital infrastructure would be necessary to ensure transparent allocation, monitoring, and accountability of funds, thereby reinforcing public trust.

The final phase would focus on consolidation, institutional learning, and strategic expansion. The effectiveness of the framework would be systematically evaluated against clear performance indicators, including capability delivery, cost efficiency, and resilience outcomes. Adjustments would be made based on empirical results and political feedback. Over time, the scope of the fiscal-military capacity could be broadened to include adjacent

domains such as cyber defence, space infrastructure, and hybrid threat resilience, reflecting the evolving nature of security challenges.

Taken together, this phased approach allows Europe to move from fragmented national defence spending toward a more coherent collective capacity without overextending political consensus or institutional bandwidth. The guiding principle throughout is incremental legitimacy: building capability in step with trust, and trust in step with demonstrated effectiveness.

A smooth and equitable implementation of a Single Tax Jurisdiction can only succeed if the transition is treated not as a single legislative act but as a **sequenced transformation of authority, capacity, and trust**. The EU's economic diversity — from high-tax continental economies to low-tax investment hubs, from large administrative systems to small, capacity-constrained administrations — means that uniformity cannot be imposed; it must be constructed. The strategies that make this possible fall into three interlocking domains: **political sequencing, administrative asymmetry, and distributional stabilisation**.

The first requirement is political sequencing. A jurisdictional shift of this magnitude cannot begin with the most sensitive element — the move to qualified majority voting. Instead, the EU must begin with visible guarantees that the STJ does not entail automatic rate harmonisation, that national parliaments retain oversight, and that subsidiarity is not a rhetorical gesture but a structural principle. Early phases must therefore emphasise transparency, interoperability, and common definitions rather than centralisation. Only once the administrative benefits are demonstrated — lower compliance costs, fewer disputes, more predictable tax bases — can the political centre of gravity shift toward shared rule-making. Sequencing is not cosmetic; it is the mechanism through which reluctant states are brought from defensive resistance to conditional acceptance.

The second requirement is administrative asymmetry. A smooth transition depends on recognising that Member States do not enter the STJ with equal administrative capacity. Some tax administrations are highly digitised, deeply staffed, and experienced in cross-border audits; others are smaller, more manual, and more exposed to capacity constraints. A uniform implementation timetable would therefore be inequitable. Instead, the EU must adopt a **multi-speed administrative model**: early adopters can move directly into the consolidated BEFIT framework, while smaller administrations receive phased onboarding, technical assistance, and transitional regimes such as the Head Office Tax System. This asymmetry is not a concession; it is a structural necessity to prevent the STJ from becoming a source of administrative strain or political backlash.

The third requirement is distributional stabilisation. A unified tax base will not affect all Member States equally. Some will gain revenue from reduced profit shifting; others may lose part of the competitive advantage that low effective tax rates currently provide. To avoid destabilising the political coalition, the EU must create **revenue-stabilisation instruments**: temporary compensation funds, adjustment mechanisms for sudden revenue shocks, and formula-based allocation rules that prevent disproportionate losses. These mechanisms are not merely financial; they are political guarantees that the STJ will not produce winners and losers in a way that undermines its legitimacy.

Beyond these three pillars, the transition also requires a judicial strategy. The Court of Justice must be equipped to handle a surge in tax-related litigation, and its jurisprudence must be clarified to avoid conflicting interpretations of the unified tax code. A strengthened CJEU is essential to ensure that the STJ does not fracture under the weight of divergent national readings.

Finally, the entire process must be framed as a **reconfiguration of sovereignty rather than its erosion**. The STJ succeeds only if Member States see it as a way to regain control over cross-border tax dynamics that no single state can manage alone. In this sense, the implementation strategy is as much about narrative as it is about law: the union must be presented not as a centralising force but as a collective instrument for restoring fairness, stability, and competitiveness in a globalised economy.

Implementation roadmap for an EU Single Tax Jurisdiction (STJ)

Phase I – Foundations and trust-building (2025–2027) The first phase focuses on pre-jurisdictional measures: common concepts, shared infrastructure, and political guarantees. The EU would adopt and operationalise BEFIT as a voluntary common rulebook for corporate tax bases, expand the Head Office Tax System and one-stop-shop mechanisms, and deepen the Taxation Partnership for joint audits and data exchange. In parallel, the Council and Parliament would adopt a political declaration clarifying that the STJ does not imply automatic rate harmonisation and that national parliaments retain ex-ante and ex-post scrutiny rights. This period is about proving that coordination lowers compliance costs and improves enforcement without yet touching formal sovereignty.

Phase II – Controlled consolidation and asymmetric onboarding (2027–2031) Once administrative benefits are visible, the second phase begins the controlled consolidation of jurisdiction. BEFIT moves from voluntary to default for large cross-border groups, with opt-out or longer transition windows for smaller and capacity-constrained administrations. The Commission's Taxation and Customs Union DG is formally mandated as the central coordinator of the STJ architecture, ECOFIN's tax working structures are upgraded into a standing Fiscal Coordination Council, and a dedicated STJ Support Facility provides technical assistance and IT modernisation for lagging administrations. In this phase, the legal basis for shifting selected tax matters from unanimity to qualified majority voting is prepared and adopted, but applied only to clearly delimited areas (for example, base definition and reporting standards, not rates). Revenue-stabilisation mechanisms and temporary compensation schemes are put in place to cushion states that face short-term losses from reduced tax competition.

Phase III – Full jurisdictional operation and stabilisation (2031–2035) The third phase marks the transition from coordinated systems to a functioning Single Tax Jurisdiction. The unified tax code for the agreed scope of taxes enters into force; the Council and Parliament legislate under QMV in that field; and the CJEU assumes explicit, streamlined jurisdiction over disputes arising from the STJ framework. National administrations operate through a largely common digital infrastructure, with remaining derogations time-limited and subject to review. The revenue-stabilisation instruments are gradually tapered as the new allocation formulas and consolidated base mature. Throughout this phase, a formal STJ Review Mechanism—combining Commission reports, ECOFIN assessments, and Parliament hearings—monitors distributional effects, administrative performance, and taxpayer experience, allowing targeted adjustments without reopening the entire settlement.

Cross-cutting elements – Narrative, legitimacy, and feedback Across all three phases, three transversal strands run continuously. First, a narrative strategy that frames the STJ as a way to recover effective sovereignty over mobile tax bases, not to surrender it. Second, a legitimacy strategy that embeds national parliaments and social partners in regular STJ dialogues, ensuring that decisions are not perceived as technocratic impositions. Third, a feedback strategy that uses data from joint audits, dispute patterns, and business compliance costs to iteratively refine rules.

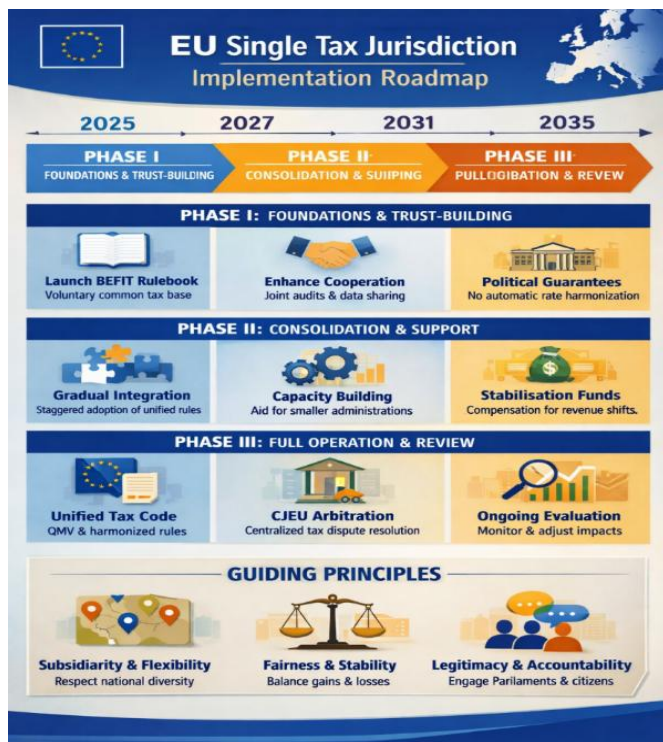
In this roadmap, the STJ is not a single leap but a staged convergence: coordination first, shared administration second, and only then shared jurisdiction—each step conditional on demonstrated benefits and credible safeguards.

The logic of the **Single Tax Jurisdiction (STJ)** rests on the idea that fiscal coherence is a prerequisite for economic integration. It begins from the recognition that twenty-seven national tax systems, each with its own definitions, exemptions, and enforcement regimes, create structural inefficiencies that fragment the single market. The STJ therefore proposes to treat the European Union as one legal tax territory for defined categories of taxation — primarily corporate income — governed by a unified rulebook, a consolidated tax base, and shared adjudication.

Its internal logic unfolds in three dimensions. Legally, it transforms taxation from a national competence into a shared competence exercised under qualified majority voting and co-decision with the European Parliament. Institutionally, it consolidates existing frameworks such as BEFIT, the Transfer Pricing Directive, and the Head Office Tax System into a single administrative architecture coordinated by the Commission and overseen by ECOFIN and the Court of Justice. Economically, it replaces competition among tax regimes with competition

among productive capacities, aiming to reduce arbitrage, profit shifting, and compliance costs while stabilising collective revenue.

Figure



The deeper rationale is that fiscal sovereignty, when exercised in isolation, no longer guarantees fiscal control in a globalised economy. The STJ reframes sovereignty as shared stewardship — pooling authority to regain effectiveness. Its success depends on legitimacy mechanisms that ensure democratic oversight and on phased implementation that respects administrative asymmetry among Member States. In essence, the STJ’s logic is integrative rather than centralising: it seeks to create one jurisdiction not to erase national diversity but to make that diversity function within a coherent, transparent, and equitable fiscal order.

Strategic Implications

The development of a fiscal-military capacity would mark a profound transformation in the European Union’s position within the international system, shifting it incrementally from a predominantly regulatory and economic actor toward a more fully fledged strategic power. This evolution would not imply the abandonment of its civilian identity, but rather its augmentation with credible hard-power and resilience capabilities that are increasingly necessary in a fragmented and unstable global order.

At the core of this shift is a gradual reduction in structural dependence on external security guarantees, particularly those provided by the United States. While transatlantic cooperation would remain a cornerstone of European security, a stronger fiscal-military architecture would enable the Union to act with greater autonomy in defining, prioritising, and sustaining its own strategic objectives. This autonomy is not about geopolitical separation, but about reducing asymmetry in decision-making power, thereby allowing Europe to respond more rapidly and coherently to crises in its immediate neighbourhood and beyond.

A consolidated fiscal capacity dedicated to security and defence would also fundamentally improve efficiency in resource allocation. At present, European defence spending is characterised by fragmentation, duplication of procurement systems, and limited interoperability between national capabilities. A coordinated fiscal-military framework would enable joint procurement, standardisation of equipment, and shared investment in research and development, particularly in high-cost domains such as advanced defence technologies, cyber capabilities,

space infrastructure, and next-generation intelligence systems. The result would be not only higher effectiveness per euro spent, but also significant economies of scale that individual Member States cannot achieve alone.

Beyond efficiency gains, such a transformation would enhance Europe's structural influence in global governance. The ability to mobilise financial resources at scale for security-related objectives would allow the Union to shift from a largely normative power to a more operational one, capable of shaping outcomes rather than merely articulating standards. This would strengthen its voice in multilateral institutions, crisis response frameworks, and the formation of international rules governing emerging domains such as cyber conflict, artificial intelligence in warfare, and space security.

Over time, a credible fiscal-military capacity would also reinforce the EU's identity as a comprehensive power—one that combines economic strength, regulatory influence, and security provision within a single institutional framework. This does not diminish its foundational commitment to multilateralism or rule-based international order; rather, it enhances its ability to defend and project those principles in an increasingly contested geopolitical environment.

In essence, the strategic significance of a fiscal-military capacity lies not only in increased defence spending or operational capability, but in the deeper reconfiguration of Europe's role: from a system that reacts to global instability to one that possesses the institutional means to shape it.

At last, spending “wiser” in the EU context is less about cutting and more about **changing what every euro is allowed to do**. The core shift is from input-driven budgeting (“how much do we allocate?”) to outcome-driven budgeting (“what problem does this euro actually solve?”). That means designing EU and national budgets around a small set of clearly defined missions—climate resilience, productivity and skills, security and critical infrastructure—rather than spreading funds thinly across many small, low-impact lines that survive mainly by inertia.

For the EU level, the biggest gain comes from **doing fewer things together, but at scale**. Joint investment in cross-border infrastructure, energy grids, digital networks, defence capabilities, and research produces returns no single state can achieve alone. Every euro spent on genuinely European public goods—things that only make sense at EU scale—has a higher multiplier than another fragmented national subsidy. That implies a tougher test for EU programmes: if a policy could be done just as well nationally, it should not be financed at EU level.

For Member States, the leverage point is **quality of administration and targeting**. Social transfers and investment programmes often leak value through poor targeting, weak follow-up, and complex rules that deter the very people or firms they are meant to help. Using data more intelligently—linking tax, social, and labour-market information—allows benefits and incentives to be focused on those with the highest marginal impact: children in disadvantaged schools, workers in transition, SMEs with real growth potential, regions stuck in low-productivity traps. The same money, better aimed, produces more mobility and less waste.

Both levels need to become more comfortable with **rigorous evaluation and killing what does not work**. That means building independent evaluation into the life cycle of programmes, publishing results, and making continuation conditional on demonstrated impact rather than political habit. It also means shifting from one-off grants to more performance-based instruments: tranches released when agreed milestones on skills, emissions, or investment are actually met.

Finally, “more bang for the buck” also comes from **coordination, not just generosity**. When EU funds, national budgets, and private capital are aligned around the same projects—with predictable rules, stable regulation, and clear long-term signals—the crowding-in effect is large. When they pull in different directions, each euro works against the others. Spending wiser, in that sense, is not only about better choices within each budget, but about making the EU and its Member States act as if they were investing in a shared balance sheet, not twenty-eight separate ones.

If the EU were to evolve more clearly into a “great power,” the implications for tax administration would be structural rather than incremental, because taxation sits at the core of sovereignty.

First, it would likely push toward deeper tax harmonisation. A great power needs internal economic coherence, so fragmented corporate tax bases and divergent VAT rules would become harder to justify. This would increase pressure for common tax bases and tighter alignment of rates or at least tax rules.

Second, there would be stronger justification for centralised or semi-centralised EU tax capacity. Even without fully replacing national tax authorities, the EU level would likely gain more authority over enforcement coordination, digital taxation, and cross-border compliance.

Third, fiscal sovereignty would become more shared in practice, even if not formally abolished. Member states might retain headline tax-setting powers, but constrained within EU-wide frameworks designed to prevent internal distortion and tax competition.

Fourth, tax administration would become more data-driven and integrated. A great-power EU would likely expand shared tax databases, real-time reporting systems, and joint audit mechanisms to match its economic weight and regulatory ambition.

Fifth, the fight against tax avoidance and evasion would intensify and become more externalised. The EU would act more like a unified bloc in OECD negotiations and global tax governance, reducing room for member states to act independently in shaping international tax norms.

Sixth, political tensions would increase around legitimacy and consent. Tax is one of the most sensitive expressions of sovereignty, so stronger EU-level coordination would likely face resistance unless matched with stronger democratic accountability at the EU level.

Finally, the overall direction would be toward treating tax administration less as a collection of national systems and more as an integrated instrument of a single economic polity—balancing efficiency and control with the enduring reality of member state autonomy.

Risks and Mitigation

The proposed approach, while strategically compelling, is not without significant and multi-layered risks that must be acknowledged with clarity and managed with precision. The most immediate and politically sensitive challenge lies in the domain of sovereignty. Several Member States are likely to view any move toward a fiscal-military capacity as a gradual transfer of core national prerogatives, particularly in defence spending, fiscal authority, and strategic decision-making. This concern is not merely technical but deeply constitutional and historical in nature, rooted in the fact that defence remains one of the most symbolically charged expressions of statehood in Europe.

Mitigating this risk requires a carefully calibrated institutional design that emphasises flexibility rather than compulsion. A model based on variable geometry or voluntary participation would allow Member States to engage at different levels of integration, thereby reducing perceived coercion while preserving momentum among willing coalitions. Equally important is the demonstration effect: early and visible benefits—such as cost savings from joint procurement, improved capability delivery, and reduced duplication—are essential to converting political scepticism into incremental acceptance. In this sense, legitimacy is not pre-given but earned through performance.

A second and equally important dimension concerns democratic legitimacy and public trust. The establishment of any fiscal-military structure at the EU level inevitably raises questions about transparency, accountability, and the perceived distance between decision-making and citizens. Without a clear and intelligible link between financial contributions and tangible outcomes—such as enhanced security, improved resilience, or more efficient public spending—the system risks being perceived as technocratic expansion without democratic grounding. Addressing this requires robust accountability mechanisms, including parliamentary oversight at both European and national levels, transparent reporting frameworks, and clear communication strategies that articulate the concrete benefits of integration in terms that citizens can directly understand.

Finally, economic risks must be carefully managed to avoid unintended distortions within the Single Market and beyond. The reallocation of fiscal resources toward security-related expenditures could, if poorly designed, crowd out productive investment or create uneven competitive conditions between Member States. These risks can be mitigated by preserving a meaningful degree of national fiscal flexibility, ensuring that EU-level instruments complement rather than replace national spending, and aligning policy design with established international frameworks, including those developed within the OECD. Such alignment would help maintain macroeconomic coherence, reduce the risk of regulatory fragmentation, and ensure compatibility with global standards of fiscal discipline and transparency.

Taken together, these risks do not invalidate the proposed trajectory, but they do underscore a central strategic requirement: integration in this domain must be evolutionary rather than abrupt, legitimacy-driven rather than purely functional, and anchored in demonstrable value creation rather than institutional ambition alone.

Finally, the absence of a clearly defined strategic doctrine could undermine the effectiveness of fiscal integration. The Union must therefore articulate a coherent vision of its role as a security actor, focusing on regional stability and resilience rather than global dominance.

Theoretical Appraisal

A supranational theory of tax integration rests on a small set of structural elements that explain how taxation can be coordinated, harmonised, or partially unified **above** the level of the nation-state without dissolving national fiscal sovereignty. When expressed in eight lines of conceptual architecture, the theory becomes clear, coherent, and analytically usable.

Here is the exposition in eight continuous elements, each functioning as a pillar of the theory.

First, supranational tax integration presupposes a shift from unilateral sovereignty to pooled or co-determined sovereignty, in which states retain formal taxing power but accept binding constraints generated at a higher institutional level.

Second, it requires a shared normative framework—minimum standards, common definitions, anti-avoidance principles—that stabilises expectations and reduces the strategic uncertainty inherent in a multi-state tax environment.

Third, it depends on legal mechanisms capable of transforming soft international norms into binding supranational obligations, thereby giving enforceable form to what would otherwise remain voluntary coordination.

Fourth, it relies on administrative integration: interoperable reporting systems, joint audits, shared data infrastructures, and supervisory coordination that make harmonised rules operational rather than merely declaratory.

Fifth, it incorporates a political bargaining system that can convert divergent national preferences into collectively acceptable outcomes, whether through unanimity, qualified majority, or structured negotiation arenas.

Sixth, it recognises the adaptive behaviour of multinational firms and treats corporate strategy as an endogenous part of the system, requiring transparency, standardised tax bases, and predictable enforcement to prevent arbitrage.

Seventh, it embeds a distributive logic—explicit or implicit—that manages the fiscal consequences of integration, ensuring that no state perceives itself as a structural loser in the supranational arrangement.

Eighth, it culminates in a governance architecture that is neither federal nor intergovernmental but polycentric: authority is distributed, decisions are iterative, and coherence emerges from institutional design rather than hierarchical command.

The task, therefore, is to show how the eight elements fill precisely the gap the literature has not yet resolved. Here is a continuous, academically styled synthesis that links them.

A supranational theory of tax integration provides exactly the conceptual architecture that the existing literature on EU taxation lacks. Across the field, scholarship remains dominated by legal-policy analysis—directives, case law, institutional competences—while the deeper governance dynamics of tax integration are treated as secondary. What is missing is a unified analytical framework capable of explaining how authority shifts, how enforcement actually functions, and how behaviour changes in response to supranational constraints. The eight elements of supranational tax integration supply this missing structure.

The first element—pooled rather than unilateral sovereignty—directly addresses the literature’s blind spot regarding authority. Most analyses describe EU tax law as coordination among sovereign states, but the supranational perspective shows that sovereignty is already being reconfigured through binding minimum standards, anti-avoidance rules, and BEPS-driven directives. This reframes EU tax integration not as a legal project but as a transformation of the underlying authority structure.

The second and third elements—shared normative frameworks and legal mechanisms that convert soft law into binding obligations—fill the gap between institutional theory and legal doctrine. They explain how OECD norms become EU law, how EU law becomes national law, and how this multi-level translation process gradually produces a common tax grammar. The literature often treats these as discrete steps; the supranational theory shows they are components of a single governance system.

The fourth element—administrative integration—responds directly to the literature’s neglect of enforcement capacity. A supranational tax polity cannot exist without interoperable reporting systems, joint audits, and shared data infrastructures. Yet these administrative dimensions are rarely theorised. By foregrounding them, the supranational framework links institutional design to empirical enforcement realities.

The fifth and seventh elements—political bargaining and distributive logic—address the political economy dimension that legal scholarship often brackets out. They explain why unanimity persists, how coalitions form, and how distributional effects shape the feasibility of integration. This moves the analysis from formal competences to the actual political dynamics that determine outcomes.

The sixth element—corporate adaptation—introduces the behavioural dimension missing from most EU tax studies. A supranational tax polity is not defined only by rules but by how firms respond to them. Empirical measurement of profit-shifting, compliance, and reporting behaviour becomes central rather than peripheral.

Finally, the eighth element—polycentric governance—provides the overarching conceptual frame that the literature lacks. It allows the EU to be understood not as a proto-federation or a loose coordination mechanism, but as an emergent tax polity whose coherence arises from institutional design, administrative integration, and iterative bargaining rather than from constitutional hierarchy.

Taken together, these eight elements supply the integrated model that the field has been missing. They combine institutional theory (authority shifts), administrative capacity (enforcement practice), and empirical measurement (behavioural change) into a single analytical framework. In doing so, they recast EU tax integration as the construction of a supranational governance system—one that is neither a federation nor a collection of sovereign tax regimes, but a new form of tax polity emerging through layered, polycentric integration.

If you want, I can now turn this into a formal section for your memo, a conceptual diagram, or a literature-review paragraph that positions your argument within the field.

Figure Gymnasium von Hinten, Museum von Vorne



The **Kuhnian cumulative effect** of the supranational theory of tax governance lies in how it transforms the intellectual paradigm through successive integrations rather than abrupt revolutions. In Thomas Kuhn’s sense, paradigm shifts occur when anomalies accumulate within an existing framework until they compel a new conceptual order. The EU’s tax governance evolution exemplifies this cumulative dynamic: it does not overthrow national fiscal sovereignty but gradually redefines it through iterative institutional, administrative, and behavioural adjustments.

At the **epistemic level**, the theory reframes taxation from a legal-policy domain into a governance system. Each directive, data-exchange mechanism, and anti-avoidance rule adds a layer of coherence that incrementally displaces the old paradigm of isolated national tax regimes. The cumulative effect is visible in the slow migration of authority—from national ministries to supranational coordination platforms—without a formal constitutional rupture. This mirrors Kuhn’s notion of normal science evolving toward a new disciplinary matrix through internal refinement.

At the **institutional level**, the accumulation of administrative infrastructures (joint audits, DAC frameworks, Pillar Two enforcement) produces a self-reinforcing system. Each innovation resolves a prior anomaly—cross-border evasion, inconsistent reporting, divergent definitions—and thereby strengthens the new paradigm’s explanatory and operational power. Over time, the EU’s tax governance ceases to be an assemblage of national systems and becomes a coherent supranational regime, even though its legal foundation remains polycentric.

At the **conceptual level**, the cumulative effect is paradigmatic because it changes what counts as “tax sovereignty.” In the old model, sovereignty meant exclusivity; in the new, it means participation in a shared architecture. This redefinition is not revolutionary but evolutionary: the anomalies of globalised corporate behaviour and digital taxation are absorbed into a new conceptual grammar that treats sovereignty as relational rather than absolute.

Finally, at the **empirical level**, the cumulative effect manifests in behavioural convergence. Firms, administrations, and policymakers increasingly act as if a supranational tax polity already exists. Compliance patterns, reporting standards, and enforcement expectations align across borders, producing the practical coherence that theory anticipates. The paradigm thus consolidates itself through practice before it is formally codified.

In Kuhnian terms, the supranational theory of tax governance represents a **cumulative paradigm shift**—a gradual reconfiguration of fiscal epistemology, institutional design, and behavioural norms. It replaces the fragmented logic of national taxation with an emergent, polycentric order whose coherence arises from accumulation rather than rupture.



CONCLUSIONS

The current EU tax architecture is characterised by legal fragmentation, administrative heterogeneity, and inconsistent enforcement capacity across Member States. This produces structural inefficiencies such as tax base erosion through cross-border arbitrage, uneven corporate taxation of mobile capital, and persistent opportunities for profit shifting and treaty shopping. Differences in tax definitions—especially for taxable income, residency, and permanent establishment—create coordination frictions that increase compliance costs for firms operating across borders. At the administrative level, disparities in digitalisation and enforcement capacity lead to uneven compliance rates, while limited real-time data sharing restricts effective cross-border monitoring. The result is a system where economic integration is high, but fiscal coordination remains partial, generating both inefficiency and perceived unfairness.

A Single Tax Jurisdiction (STJ) would likely increase compliance rates by reducing complexity, harmonising definitions, and limiting opportunities for jurisdictional arbitrage. A unified framework would improve data visibility and enforcement coordination, enabling more accurate reporting and reducing under-declaration of income, particularly in cross-border and digital activities. Tax revenue could increase in aggregate due to a broader effective tax base, reduced leakage, and improved enforcement efficiency, even without significant increases in statutory tax rates. However, distributional effects would vary: Member States with currently weak enforcement or high levels of base erosion could experience relatively larger gains, while those already operating high-compliance systems may see more marginal improvements. The overall effect would depend on administrative integration depth and political willingness to enforce harmonised rules consistently.

Transitioning to an STJ would require significant legal harmonisation, beginning with convergence of core tax concepts such as taxable income, residency, permanent establishment, and value attribution. At the institutional level, it would necessitate the creation of a supranational or hybrid tax authority with powers over assessment coordination, data integration, and cross-border enforcement assistance. Existing EU treaty frameworks would likely need amendment to expand fiscal competence beyond coordination toward shared administration in defined domains. Binding dispute resolution mechanisms would also be required to manage allocation conflicts between Member States. In addition, interoperable digital infrastructure and mandatory real-time data exchange standards would be essential to operationalise the system.

Member States with high administrative capacity and stable tax bases may perceive an STJ as beneficial for reducing tax competition and protecting revenues, while those relying on competitive tax regimes may view it as a constraint on fiscal sovereignty. Large multinational firms could initially perceive compliance simplification benefits due to reduced fragmentation, though concerns may arise regarding reduced opportunities for tax optimisation. Citizens may interpret the reform positively if it is associated with improved fairness, reduced evasion, and stronger public service funding, but scepticism could emerge if perceived as centralisation of fiscal authority without adequate democratic accountability. EU institutions are likely to view it as a strengthening of integration and enforcement capacity, while political resistance may concentrate around sovereignty-sensitive policy areas.

A gradual, phased implementation would be essential, beginning with harmonisation of tax definitions and enhanced data sharing before moving toward full administrative integration. Differentiated transition pathways could accommodate variation in Member State administrative capacity, allowing slower adjustment timelines for less-developed tax systems while providing technical assistance and capacity-building support. Financial and technical support mechanisms, potentially linked to EU fiscal instruments, would help reduce asymmetries in implementation readiness. Pilot programmes involving subsets of Member States could test operational models before full-scale rollout. To ensure legitimacy, governance structures should include strong transparency provisions, parliamentary oversight at both EU and national levels, and structured stakeholder consultation processes. Finally, embedding fairness principles—ensuring that no Member State experiences disproportionate revenue loss or administrative burden—would be crucial for sustaining political support and long-term stability of the system.

The European Union stands at a critical juncture in its historical development, where the depth of its economic integration increasingly contrasts with the relative fragmentation of its fiscal and strategic capacity. While the Single Market, monetary integration within the euro area, and regulatory harmonisation have reached an advanced stage, the Union's ability to act collectively in matters of security, resilience, and external strategic projection remains structurally constrained. This asymmetry between economic integration and strategic capability is becoming more difficult to sustain in an environment defined by geopolitical instability, energy vulnerability, technological competition, and persistent security risks.

Yet the path toward deeper fiscal and strategic capacity cannot be approached in a constitutional vacuum. It must navigate entrenched legal constraints embedded in the Treaties, as well as enduring political sensitivities linked to sovereignty, taxation authority, and national budgetary control. As a result, any viable strategy must be incremental in design, institutionally compatible, and politically reversible in its early stages, while still being strategically directional.

Within this context, the proposed EU–Member State Taxation Partnership offers a pragmatic and evolutionarily realistic pathway. It is conceived not as a replacement for national fiscal sovereignty, but as a structured coordination mechanism that gradually deepens collective fiscal capacity where common European interests are clearly defined and demonstrably shared. Its central logic is to reconcile two imperatives that are often treated as contradictory: the preservation of national control over taxation and the development of a credible, coordinated European fiscal capability in areas of common strategic relevance.

At its core, the model seeks to reduce fragmentation within Europe's fiscal landscape, particularly in areas where uncoordinated national policies generate inefficiencies, distortions, or gaps in enforcement. This includes corporate taxation, digital taxation, and cross-border compliance regimes, where divergence among Member States can weaken the integrity of the Single Market. By improving coordination and harmonisation in these domains, the framework enhances both fairness and efficiency, while also strengthening the Union's collective fiscal base without requiring the immediate creation of supranational taxing authority.

The purpose of establishing a Single Tax Jurisdiction (STJ) in the EU is to create a coordinated supranational fiscal framework that addresses several key objectives.

It seeks to eliminate fragmentation by replacing overlapping territorial and sectoral tax jurisdictions, thereby reducing inconsistencies and inefficiencies in tax administration across Member States.

It aims to enhance compliance and administrative efficiency by harmonising rules for tax base definition, residency, and profit allocation, making the system more coherent and easier to navigate for both individuals and businesses.

It is also designed to address tax avoidance by reducing opportunities for profit shifting and regulatory arbitrage that arise from asymmetric tax competition within the Union.

A further objective is to strengthen fiscal legitimacy by establishing a clear and unified taxation framework that improves transparency and reinforces citizens' perception of fairness in the tax system.

The STJ would support deeper economic integration by aligning tax policy more closely with the realities of a highly mobile, digital, and interconnected economy, thereby strengthening the functioning of the internal market.

It would also introduce a more structured approach to fiscal allocation and redistribution, ensuring that revenues are distributed across Member States according to agreed principles that can help address regional and structural disparities.

Finally, it would adapt taxation to modern economic conditions, particularly digitalisation and capital mobility, ensuring that the tax system remains effective, resilient, and capable of capturing value creation in a rapidly evolving global economy.

Overall, the establishment of a Single Tax Jurisdiction is aimed at creating a more efficient, fair, and transparent tax system that supports the broader goals of economic stability and integration within the EU.

The proposed taxation partnership within the EU aims to enhance transparency and citizen trust through a set of mutually reinforcing institutional and informational mechanisms that together reshape the relationship between taxpayers and fiscal authority. At its core, the model introduces a structured feedback interface through which citizens can systematically express views on fairness, administrative performance, and spending priorities. This is not conceived as symbolic consultation but as an embedded governance function that strengthens accountability by making citizen experience a continuous input into tax system evaluation.

Complementing this, citizen panels embedded in pilot regions operate as deliberative spaces where representative groups of citizens engage directly with fiscal questions, including budget allocation priorities and standards of transparency. By institutionalising deliberation, these panels reduce the distance between taxation as an abstract obligation and taxation as a visible collective decision-making process, thereby strengthening perceived legitimacy.

A further transparency mechanism is the introduction of a pilot EU citizen tax bill, which provides individuals with a consolidated and intelligible breakdown of total taxes paid across EU, national, and regional levels. This reform makes visible the multi-layered nature of fiscal contributions and links them more directly to public services and investment outcomes, strengthening the cognitive connection between payment and benefit.

In parallel, simplified fiscal dashboards would provide citizens with accessible but comprehensive visualisations of how revenues are collected and allocated across governance layers. These dashboards are designed to improve fiscal literacy by making complex intergovernmental flows legible, thereby reducing informational asymmetries that often weaken trust in taxation systems.

The partnership also relies on real-time data sharing between Member States and EU institutions, creating a more integrated administrative environment in which fiscal information is continuously updated and mutually verifiable. This enhances transparency not only for citizens but also across institutions, reducing the scope for delays, inconsistencies, or information gaps in tax reporting and enforcement.

A key analytical innovation is the shift toward performance metrics that prioritise system efficiency, enforcement quality, and administrative convergence rather than focusing narrowly on statutory tax rates or aggregate revenue levels. This allows for a more sophisticated evaluation of tax system functioning and provides a basis for evidence-based improvements that can be communicated transparently to the public.

Finally, participatory oversight mechanisms embed taxpayer rights directly into the governance structure by ensuring access to clear digital records, standardised assessment logic, and enforceable procedural safeguards. This institutionalises transparency as a structural feature of tax administration rather than an external accountability check, reinforcing the legitimacy of the system through both visibility and procedural fairness.

Taken together, these mechanisms aim to transform the EU tax environment into a more transparent, participatory, and institutionally coherent system in which compliance is supported not only by enforcement capacity but also by strengthened trust, clearer information, and more direct citizen engagement with fiscal governance.

Institutionally, the success of such a framework depends on significant improvements in governance architecture. Enhanced coordination bodies would be required to ensure consistency in implementation, transparency in allocation, and accountability in execution. These bodies would not function as autonomous fiscal authorities, but rather as supervisory and coordinating institutions designed to align national contributions with collectively agreed priorities. Complementing this, modernised digital tax infrastructure—including real-time reporting systems, interoperable data platforms, and advanced fraud detection mechanisms—would be essential to improving both compliance and administrative efficiency across Member States.

Over time, the introduction of shared fiscal instruments could be complemented by expanded joint procurement in defence and dual-use technologies, allowing economies of scale to emerge in sectors where fragmentation currently imposes significant cost inefficiencies. In parallel, strengthened anti-fraud frameworks and shared fiscal oversight mechanisms would reinforce trust between Member States, ensuring that contributions are both traceable and effectively deployed.

Importantly, the framework is designed to be evolutionary rather than disruptive. It allows for gradual deepening of fiscal coordination without requiring immediate treaty revision or full federalisation. This staged approach enhances political feasibility while preserving strategic directionality. It also creates a learning-by-doing dynamic, in which institutional capacity, political trust, and operational effectiveness co-evolve over time.

Ultimately, the proposed European Security Contribution, embedded within a broader taxation partnership and reinforced by incremental institutional reforms, represents a pragmatic foundation for strengthening the Union's fiscal and strategic autonomy. It offers a pathway toward greater resilience and global influence without requiring abrupt constitutional rupture. At the same time, it acknowledges a structural reality: in an increasingly fragmented and competitive international system, continued fiscal and strategic disunity within Europe carries rising costs.

The alternative to gradual integration is not institutional stasis, but progressive strategic marginalisation. In this sense, the choice facing the Union is not between integration and non-integration, but between managed, orderly capacity-building and reactive adaptation under external pressure.

The fragmentation problem in EU taxation policy lies in the coexistence of 27 national tax systems that remain poorly coordinated, creating inefficiencies, distortions, and lost competitiveness. It undermines the single market's promise of seamless economic activity and imposes heavy compliance burdens on firms and workers operating across borders.

A Single Tax Jurisdiction (STJ) in the EU would have broad structural effects on compliance, revenue generation, and regional equity by fundamentally shifting taxation from a fragmented national system to a unified fiscal framework.

In terms of compliance rates, the most immediate effect would be a significant increase in overall compliance. A harmonised tax base and unified reporting standards would reduce legal ambiguity and close loopholes created by differences in national definitions of taxable income, residency, and corporate presence. Real-time data sharing and integrated digital tax administration would strengthen enforcement capacity, making underreporting and cross-border evasion more difficult. Compliance would improve not only through stricter enforcement but also through simplification, as firms and individuals face fewer conflicting rules and lower administrative burdens.

Regarding revenue generation, the STJ would likely increase aggregate tax revenues across the EU without necessarily raising tax rates. This would occur through a broader and more accurately captured tax base, reduced profit shifting, and improved VAT and corporate tax collection. High-evasion and low-capacity jurisdictions would experience the largest proportional gains, as formalisation and enforcement improvements bring previously untaxed economic activity into the system. Over time, revenue volatility would also decline, as harmonised rules reduce sensitivity to tax competition and base erosion strategies. However, distributional effects would be uneven, with some high-compliance Member States seeing smaller marginal gains.

In terms of regional equity, the STJ would tend to reduce structural disparities in fiscal capacity across Member States. Countries with weaker tax administrations or higher levels of informality would benefit most from enforcement convergence and administrative integration. This would support greater convergence in public revenue availability, enabling more balanced provision of public services across the Union. However, transitional adjustment effects could temporarily widen disparities, as less developed tax systems face higher adaptation costs and institutional restructuring pressures.

Overall, the STJ would act as a convergence mechanism, increasing efficiency and revenue stability while gradually reducing fiscal divergence across regions. Its equity-enhancing effects would depend heavily on the design of transitional support, capacity-building mechanisms, and the degree to which implementation is phased rather than abrupt.

The European Parliament's Tax Barriers and Cross-Border Workers study (2025) identifies fragmentation as a structural obstacle to mobility and growth: tax rules differ so widely that cross-border workers face double taxation risks, complex reporting, and inconsistent definitions of income and residence. For companies, the same divergence translates into what economists call a "hidden competitiveness tax." A medium-sized firm may spend **50 hours per year on tax compliance in Estonia** but **over 400 hours in Bulgaria**, purely because of regulatory divergence. These disparities distort decisions on where to incorporate, hire, or invest, effectively penalising cross-border expansion.

The fragmentation problem has several dimensions. **First**, legal fragmentation: direct tax legislation has accumulated over decades without systematic simplification. Overlapping initiatives—BEFIT, Unshell, DAC8-9, DEBRA, digital levies—have created a dense thicket of rules that even national administrations struggle to interpret. **Second**, administrative fragmentation: each member state maintains its own compliance procedures, invoice formats, audit frequencies, and digital reporting systems. This lack of interoperability prevents tax authorities from exchanging data efficiently and increases fraud risk. **Third**, policy fragmentation: differing tax bases and incentives lead to fiscal competition rather than coordination, eroding the Union's collective capacity to finance shared priorities such as climate transition and digital infrastructure.

The European Commission and Parliament have begun to address these issues through what Commissioner Wopke Hoekstra called a push for simpler, predictable, and better-coordinated tax systems. The emerging consensus favours **tax interoperability**—common technical and operational frameworks that allow national systems to function seamlessly across borders without full rate harmonisation. This approach would standardise data formats, valuation rules, and digital interfaces, enabling real-time cooperation among tax authorities while preserving national sovereignty over rates.

Best practice internationally and within the EU suggests several remedies. **Simplification and decluttering** of direct tax legislation, as proposed in the 2025 Commission Work Programme, would drastically reduce

administrative burdens for SMEs and improve competitiveness. **Common minimum standards for digital tax services**—shared APIs, e-invoicing protocols, and data exchange systems—could cut compliance time by half for cross-border firms. **Coordinated definitions of taxable income and residence** would protect mobile workers and digital nomads from double taxation, a growing issue since the pandemic. Finally, a **European Taxpayers' Code** or similar framework could codify rights and procedures, making the system more transparent and predictable for citizens.

In essence, fragmentation in EU taxation is not a failure of policy intent but of institutional design. The Union has achieved free movement of goods, capital, and people—but not of tax administration. Overcoming this gap requires interoperability, simplification, and shared digital infrastructure. Only then can taxation cease to be a barrier and become a foundation for a truly integrated European economy.

To generate wealth, a political community must first be able to **pool resources** in a way that is stable, efficient, and strategically aligned. The EU's challenge is that it aspires to continental-scale outcomes—energy security, digital sovereignty, climate transition, research leadership—while relying on a fiscal architecture that remains largely national, uneven, and administratively incompatible.

A Union can only act like a Union if it can **aggregate revenue** like one.

Aggregation is not about centralisation; it is about **coherence**. It means that the fiscal system must be able to collect, coordinate, and deploy resources in a way that reflects the scale of the problems it seeks to solve. Without this apparatus, even €7.1 trillion becomes a patchwork of national budgets rather than a continental investment strategy.

The logic is simple: **Fragmented revenue** → **fragmented capacity** → **fragmented outcomes**. **Aggregated revenue** → **strategic capacity** → **shared prosperity**.

This is why the EU's wealth-generation debate is inseparable from its tax-coordination debate. You cannot maximise utility per euro if the euros themselves are trapped in 27 incompatible systems.

Fragmented revenue means that fiscal resources are collected, administered, and deployed through 27 separate systems that rarely align in timing, rules, or strategic intent. When revenue is fragmented, capacity becomes fragmented because no institution — national or European — can marshal resources at the scale required to address continental challenges. Fragmented capacity then produces fragmented outcomes: energy grids that stop at borders, digital networks that fail to interconnect, research ecosystems that compete rather than compound, and climate policies that vary so widely they cancel each other's effects. In such a system, even large sums of money lose their transformative power because they are dispersed across incompatible administrative channels. The result is a Europe that spends a great deal but achieves less than the sum of its parts.

Aggregated revenue does not imply centralisation; it implies coherence — the ability to pool resources where scale matters without erasing national autonomy where it does not. When revenue is aggregated, capacity becomes strategic: institutions gain the fiscal strength to plan long-term, coordinate cross-border projects, and invest in technologies and infrastructures that no single member state could finance alone. Strategic capacity then produces shared prosperity, because the benefits of large-scale investment — lower energy prices, faster innovation, resilient supply chains, stronger labour markets — diffuse across the entire Union. In this model, each euro becomes more productive because it is part of a coordinated investment cycle rather than a fragmented patchwork. The outcome is a Europe that can act with purpose, compete globally, and deliver visible improvements in citizens' lives.

Aggregation is not a technical preference but a civic necessity, because only shared resources allow Europe to act at the scale its challenges demand. Fragmentation traps potential in 27 separate fiscal silos, while aggregation unlocks the strategic capacity to invest in innovation, infrastructure, and resilience. When capacity becomes strategic, investment becomes transformative, and the benefits diffuse across borders rather than stopping at them. Shared prosperity emerges not from spending more, but from spending together in ways that multiply

value for every citizen. The appeal, ultimately, is simple: a Europe that aggregates wisely is a Europe that grows, competes, and delivers a future worthy of its people.

Tax revenue can be increased most sustainably not by simply raising rates, but by **broadening bases, closing leakages, and supporting growth itself**. That means tightening the effective base for corporate and high-end personal income taxation (fewer loopholes, more consistent rules), strengthening carbon and environmental pricing, and gradually shifting part of the burden from labour toward consumption, property, and pollution. At the same time, a more integrated single market—fewer tax-induced distortions, simpler cross-border rules, better digital administration—raises potential growth, which in turn expands the tax base without changing headline rates. Carefully designed EU “own resources” (for example, parts of carbon border adjustment, digital or financial levies) can add a modest but symbolically important layer of common revenue for genuinely European public goods.

On the spending side, higher revenue only creates real value if it is channelled into **high-multiplier, future-oriented uses**. Priority domains are fairly clear: human capital (early education, skills, mobility), innovation and R&D, green transition, digital infrastructure, and critical cross-border networks in energy and transport. Cohesion spending should be tied more tightly to productivity-enhancing projects rather than pure transfers, with ex-ante and ex-post evaluation built in as a condition for continued funding. A portion of additional revenue should also be reserved for stabilisation—automatic fiscal support in crises—so that downturns do not force cuts in precisely the investments that drive long-term growth. The guiding principle is simple: every new euro of revenue should be treated as an **investment decision**, not a mere budget line.

Taxation fits into the broader **EU policy mix** as both a financing tool and a steering instrument. Alongside regulation, competition policy, industrial policy, and monetary policy, taxation shapes incentives: carbon prices steer firms toward cleaner technologies; R&D tax credits and grants support innovation; labour tax design influences employment and participation. At the same time, the composition and visibility of taxation are central to **political legitimacy**—citizens judge the Union not only by what it regulates, but by how it raises and uses money in their name. In a coherent EU policy mix, taxation does three things at once: it funds common priorities, corrects market failures, and signals collective choices about fairness and solidarity. The more clearly those links are articulated and measured, the easier it becomes to argue for both higher quality revenue and higher quality spending.

To be prescient rather than reactive, citizens, a political community needs more than good intentions — it needs **foresight, disciplined leadership, and an orderly governmental architecture** that can anticipate shocks instead of merely absorbing them. The contrast is stark: reactive systems spend their energy managing crises they failed to foresee, while foresight-driven systems shape the environment in which crises unfold. Democratic leadership matters here because legitimacy is what allows governments to take long-horizon decisions that may not yield immediate rewards but prevent future instability. Good governmental order matters because only stable, rules-based institutions can convert foresight into action rather than improvisation. When these elements align, policy becomes a deliberate instrument of direction rather than a reflexive response to events.

A prescient system begins with **strategic intelligence** — the capacity to scan emerging trends in technology, demography, climate, and geopolitics and translate them into actionable priorities. It continues with **institutional coherence**, ensuring that ministries, agencies, and EU-level bodies operate with shared assumptions rather than contradictory mandates. It requires **fiscal foresight**, where budgets are treated as long-term investment plans rather than annual firefighting exercises. And it depends on **democratic consent**, because foresight without legitimacy becomes technocracy, while legitimacy without foresight becomes drift.

The alternative — being reactive and easily enrageable — produces a politics of short cycles, where public anger drives policy more than evidence, and where institutions chase symptoms rather than causes. Such systems are vulnerable to misinformation, volatility, and policy whiplash, which erode trust and weaken the state’s ability to act with purpose. In contrast, foresight-driven democratic leadership cultivates a political culture where citizens understand not only what decisions are made, but why they are made before crises force them.

In this manner, foresight becomes a form of democratic stewardship: a commitment to governing not only for the present electorate but for the generations who will inherit the consequences of today's choices.

Polity building in the tax domain refers to the creation of shared fiscal rules and institutions that enable collective governance beyond the nation state. Order consolidation occurs when these tax rules stabilise expectations about contribution, enforcement, and redistribution across a political community. Public policy objectives in taxation translate political priorities into operational tools for revenue generation, allocation, and behavioural steering. Together, they transform taxation from a technical instrument into a core mechanism of state and supranational authority formation. Socially, taxation underpins redistribution, inequality management, and the material basis of welfare legitimacy. Economically, it structures incentives, resource allocation, and investment patterns within integrated markets. Politically, it defines the boundaries of sovereignty, compliance, and legitimacy between citizens and governing institutions. As polity building deepens, tax systems increasingly function as infrastructure for trust and collective identity formation. As order consolidates, fiscal rules reduce uncertainty and stabilise expectations in complex, integrated economies. Ultimately, tax policy becomes the interface where governance capacity, social cohesion, and economic coordination are continuously co-produce.

Annex I: Legal Pathways for Fiscal Integration

The development of EU-level fiscal capacity must operate within a treaty framework that was not originally designed to support centralized taxation or defense financing. As a result, any viable pathway toward fiscal-military integration must rely on **legal creativity, institutional layering, and incremental adaptation** rather than formal constitutional transformation.

At the core of the constraint lies the requirement of unanimity for tax harmonisation under Articles 113 and 115 of the Treaty on the Functioning of the European Union (TFEU). This effectively grants each Member State veto power over substantive changes to tax policy. Furthermore, Article 114 explicitly excludes fiscal provisions from the ordinary legislative procedure, limiting the scope for majority-based decision-making. The flexibility clause under Article 352 cannot be used to circumvent these restrictions where taxation is explicitly excluded.

Despite these constraints, several **pragmatic legal pathways** remain available.

The first and most immediately viable pathway is the expansion of the EU's **Own Resources system**. While traditionally based on customs duties, VAT-based contributions, and gross national income (GNI) transfers, recent innovations—such as borrowing under the NextGenerationEU framework—demonstrate that the system is more adaptable than previously assumed. By redefining certain revenue streams as “assigned revenues” linked to specific policy objectives, it is possible to create de facto fiscal capacity without introducing a fully autonomous EU tax. A European Security Contribution could be embedded within this framework as a hypothecated revenue stream tied to defense expenditure.

A second pathway lies in **intergovernmental agreements outside the formal EU legal order but closely integrated with it**, following precedents such as the Fiscal Compact or the European Stability Mechanism. These arrangements allow willing Member States to proceed with deeper fiscal integration while maintaining compatibility with EU institutions. Such agreements could establish a dedicated defense financing mechanism, with governance structures linked to existing EU bodies to ensure coherence and accountability.

A third avenue is the use of **enhanced cooperation**, which permits a subset of Member States to advance integration in specific policy areas without requiring unanimity across the Union. While politically sensitive, this mechanism has been successfully used in areas such as patent law and financial transaction taxation. Applied to fiscal-military integration, enhanced cooperation could allow a coalition of willing states to pilot a European Security Contribution, creating a demonstration effect that may encourage broader participation over time.

A fourth, more indirect pathway involves **regulatory integration with fiscal spillovers**. Measures aimed at harmonizing tax bases, improving administrative cooperation, and combating fraud—while not constituting taxation per se—can significantly increase effective fiscal capacity. For example, aligning corporate tax bases

or strengthening VAT enforcement can generate additional revenues that can then be partially redirected toward EU-level priorities through agreed contribution mechanisms.

Finally, over the longer term, the possibility of **targeted treaty revision** cannot be excluded. However, such revision is unlikely to be politically feasible in the short to medium term. The strategy proposed in this memo therefore emphasizes building functional fiscal capacity within existing constraints, thereby creating the conditions under which future legal integration may become both necessary and politically acceptable.

Annex II: Comparative Models of Fiscal-Military Capacity

The relationship between fiscal systems and military power has been a defining feature of state formation and geopolitical competition. Comparative analysis provides critical insight into the institutional conditions under which fiscal-military capacity can emerge and be sustained.

The experience of the United States represents the most fully developed modern example of a fiscal-military state. Federal taxation, combined with deep capital markets and centralized borrowing authority, enables the U.S. government to sustain high levels of defense expenditure over extended periods. Crucially, this capacity is underpinned by a strong fiscal social contract, institutionalized through democratic accountability and reinforced by a shared political identity. The integration of fiscal, industrial, and military policy allows for long-term strategic planning and rapid mobilization in times of crisis.

By contrast, the European Union represents a **post-modern hybrid**, combining elements of supranational governance with persistent national sovereignty. Its fiscal architecture lacks the centralization necessary to support large-scale, sustained military investment. Defense spending remains fragmented, procurement is inefficient, and economies of scale are underexploited. While coordination mechanisms exist, they do not substitute for a unified fiscal base.

Historical precedents further illuminate the issue. The British Empire's ability to project power globally rested on its capacity to mobilize financial resources through taxation, borrowing, and trade revenues. Similarly, early modern European states developed fiscal-military institutions as a response to continuous warfare, gradually centralizing authority in order to sustain standing armies and naval forces. These examples highlight a consistent pattern: **military effectiveness depends on predictable and scalable fiscal resources**.

At the opposite end of the spectrum, decentralized or confederal systems tend to struggle with collective action problems. Without centralized revenue authority, they rely on voluntary contributions, which are often insufficient, delayed, or politically contested. This results in under-provision of public goods such as defense and weak strategic coherence.

For the European Union, the lesson is not that it must replicate federal models in full, but that **some degree of fiscal centralization is indispensable** if it seeks to act as a credible security provider. The challenge is to achieve this within a framework that respects diversity and avoids the political backlash associated with overt federalisation. The taxation partnership model proposed in this memo represents an attempt to reconcile these competing imperatives.

Annex III: European Security Contribution – Design Options

The European Security Contribution (ESC) is conceived as the central fiscal instrument for enabling EU-level defense and security financing. Its design must balance efficiency, equity, administrative feasibility, and political acceptability.

One possible model is a **VAT-based contribution**, in which a fixed percentage of national value-added tax revenues is allocated to the EU Security Fund. This approach has the advantage of relying on an existing, harmonized tax base with relatively stable revenue characteristics. It also minimizes administrative complexity,

as collection mechanisms are already in place. However, VAT is generally considered regressive, and its use for defense financing may raise concerns about distributive fairness.

A second option is a **corporate tax-based contribution**, involving a surcharge on corporate profits or a partial allocation of revenues derived from a harmonized corporate tax base. This model aligns more closely with the principle of taxing economic capacity and may be perceived as more equitable. It also connects fiscal-military capacity to the economic benefits derived from the single market. However, corporate taxation is highly sensitive politically, and disparities in national regimes could complicate implementation.

A third approach is a **hybrid model**, combining multiple revenue sources to diversify risk and enhance stability. For example, a modest VAT allocation could be complemented by a corporate tax component and supplemented by revenues from emerging instruments such as carbon border adjustments or digital services taxes. This diversification would reduce dependence on any single tax base and allow for gradual scaling.

An alternative design involves **assigned revenues from specific policy domains**, such as environmental taxation or financial transaction levies, earmarked for security purposes. While this approach may enhance political acceptability by linking contributions to broader policy goals, it risks creating fragmentation and reducing transparency if not carefully managed.

In all cases, governance is critical. The ESC must be embedded within a clear institutional framework defining how revenues are calculated, collected, allocated, and audited. Transparency mechanisms, including regular reporting and independent oversight, are essential to maintaining trust among Member States and citizens.

A phased implementation strategy is likely to be most effective. Initial contributions should be modest and clearly linked to tangible outcomes, such as joint procurement projects or specific defense capabilities. Over time, as the system demonstrates its value, both the scale and scope of the ESC can be expanded.

Annex IV: Indicators for Monitoring Fiscal-Military Capacity

The development of EU fiscal-military capacity requires a robust framework for monitoring progress, evaluating effectiveness, and ensuring accountability. This framework should combine quantitative indicators with qualitative assessments to capture both financial performance and strategic impact.

At the fiscal level, key indicators include the **share of EU-level revenue in total public expenditure**, the stability and predictability of revenue streams, and the degree of diversification across funding sources. These metrics provide insight into the extent to which the Union is developing an autonomous fiscal base.

At the defense level, indicators should measure the **scale and efficiency of joint investment**, including the proportion of defense spending allocated to collaborative projects, reductions in duplication, and improvements in interoperability. Procurement efficiency, measured through cost savings and standardization, is particularly important in assessing the benefits of integration.

Administrative performance can be evaluated through indicators of **tax compliance and enforcement**, such as reductions in the VAT gap, improvements in cross-border information sharing, and the effectiveness of anti-fraud measures. Advances in digitalization, including the adoption of real-time reporting systems and data analytics, should also be tracked.

Strategic impact requires a broader set of metrics. These include the EU's ability to respond to crises, its contribution to international security operations, and its influence in global governance forums. While more difficult to quantify, these indicators are essential for assessing whether fiscal capacity is translating into meaningful geopolitical capability.

Finally, legitimacy and public support must be monitored through measures of **transparency, accountability, and citizen trust**. Surveys, parliamentary oversight, and public reporting can provide valuable insights into how fiscal-military integration is perceived and whether it is contributing to a stronger sense of collective purpose.

Taken together, these indicators form a comprehensive evaluation framework that supports evidence-based policymaking and continuous adjustment. Without such a framework, fiscal integration risks becoming an end in itself rather than a means to achieving strategic autonomy and security.

Annex V -Treaty legislation

A proposal for a single tax jurisdiction and a refreshed tax administration framework should begin from the premise that existing tax framework legislation was designed for a world of territorially bounded income, slow-moving capital, and administratively simpler enforcement environments. That context no longer holds. The objective of reform is therefore to align jurisdictional structure, administrative capacity, and legal definitions of taxable income within a unified system capable of addressing digitalised, mobile, and increasingly cross-border economic activity.

The core proposal is the establishment of a single tax jurisdiction governed by harmonised rules for tax base definition, residency, and profit allocation. This jurisdiction would replace fragmented overlapping regimes with a unified taxable income concept applicable across all economic actors, reducing arbitrage opportunities and inconsistencies in interpretation. Existing tax framework legislation (TFU legislation) would be recast into a consolidated statute that defines taxable capacity based on economic presence, value creation, and enforceable nexus rather than formal legal domicile.

A centralised tax administration authority would be created with integrated digital infrastructure for registration, reporting, assessment, and enforcement. This authority would operate on a real-time or near-real-time data basis, drawing on automated reporting systems from financial institutions, employers, and digital platforms. Its mandate would extend beyond collection to include data verification, risk analysis, and coordinated compliance management, ensuring consistency across all taxpayers.

In parallel, the concept of taxable income would be modernised to reflect consolidated global income with controlled deductions for genuine economic costs, while limiting base erosion mechanisms. This would be complemented by simplified but robust rules for individuals, firms, and multinational entities, reducing complexity while increasing enforceability. Special attention would be given to aligning labour income, capital income, and digital platform income within a unified assessment framework.

Governance of the system would embed strong safeguards for accountability, transparency, and due process. Taxpayers would have access to clear digital records, standardised assessment logic, and structured appeal mechanisms. At the same time, the system would incorporate participatory oversight mechanisms, ensuring that legitimacy is reinforced through procedural fairness and institutional visibility.

Finally, the reform would explicitly link taxation to broader policy objectives, including economic resilience, gender equality, and sustainable public finance. By consolidating jurisdiction and administration, the system would not only improve efficiency and compliance but also strengthen the coherence between fiscal capacity and democratic accountability in a highly integrated economic environment.

Alternate

Convention on the Establishment of a Single Tax Jurisdiction and Unified Tax Administration

Preamble

The Parties to this Convention,

Recognising that globalisation, digitalisation, and financial integration have transformed the nature of economic activity and tax bases,

Acknowledging that existing fragmented tax jurisdictions enable inefficiencies, avoidance opportunities, and inconsistent enforcement,

Affirming that taxation is a core instrument of democratic governance, legitimacy, and public capacity,

Recalling the need to ensure fair, efficient, and transparent taxation of all economic actors,

Committed to strengthening administrative capacity, improving compliance, and enhancing fiscal legitimacy,

Have agreed as follows:

Article 1 – Establishment of the Single Tax Jurisdiction

A Single Tax Jurisdiction (STJ) is hereby established. Within this jurisdiction, taxation shall be governed by harmonised rules applicable uniformly to all Parties and participating economic actors.

Article 2 – Legal Nature

The STJ constitutes a coordinated supranational fiscal framework under which participating States delegate defined tax assessment, coordination, and enforcement functions to a common institutional structure, while retaining sovereign fiscal policy rights within the Convention's scope.

Article 3 – Taxable Nexus

Tax liability shall be determined by economic substance, value creation, and sustained economic presence, rather than formal legal domicile or incorporation alone.

Article 4 – Taxable Income Definition

Taxable income shall consist of consolidated net economic gain derived from labour, capital, entrepreneurial activity, and digital or hybrid economic activity, determined on a harmonised basis across all Parties.

Article 5 – Allocation of Taxing Rights

Taxing rights shall be allocated according to agreed principles of value creation, economic participation, and enforceable presence, replacing purely territorial or residency-based allocation rules where inconsistent.

Article 6 – Unified Tax Administration Authority

A Central Tax Administration Authority (CTAA) is established as an independent supranational institution responsible for registration, assessment coordination, compliance oversight, and enforcement cooperation.

Article 7 – Digital Infrastructure and Reporting

The CTAA shall maintain a secure, interoperable digital tax infrastructure enabling standardised reporting, automated verification, and coordinated data exchange across all Parties.

Article 8 – Exchange of Information

All Parties shall provide automatic, real-time or near-real-time exchange of relevant tax information, subject to uniform data standards and safeguards established under this Convention.

Article 9 – Compliance and Enforcement Cooperation

Parties shall cooperate in risk-based enforcement, including joint audits, coordinated investigations, and mutual assistance in recovery of tax claims.

Article 10 – Taxpayer Rights

Taxpayers shall be guaranteed procedural fairness, including transparency of assessment, access to digital records, reasoned decisions, and effective appeal mechanisms.

Article 11 – Data Protection and Governance

All processing of tax-related data shall comply with strict standards of confidentiality, proportionality, and security. Independent oversight shall ensure compliance with these principles.

Article 12 – Dispute Resolution

A binding dispute resolution mechanism shall be established to resolve conflicts between Parties regarding allocation of taxing rights, interpretation of provisions, and enforcement matters.

Article 13 – Harmonisation of Domestic Legislation

Parties undertake to align or amend domestic tax legislation to ensure compatibility with this Convention, including the gradual repeal of conflicting provisions.

Article 14 – Fiscal Transparency

The CTAA shall publish aggregated, anonymised reports on revenue collection, compliance trends, and systemic risk indicators to enhance accountability and legitimacy.

Article 15 – Special Provisions on Digital and Cross-Border Activity

Specific rules shall apply to digital platforms, remote service provision, and intangible asset income to ensure taxation reflects actual value creation rather than legal structuring.

Article 16 – Relationship with Existing International Agreements

This Convention shall complement existing tax treaties and international agreements. In cases of conflict, Parties shall apply the provisions ensuring the highest level of coordination and enforcement effectiveness.

Article 17 – Accession and Participation

Membership in the STJ is open to States and regional organisations willing to comply with its legal and administrative requirements.

Article 18 – Entry into Force

This Convention shall enter into force upon ratification by a minimum number of Parties representing a defined threshold of combined GDP or tax base, as specified in the Final Clauses.

Article 19 – Review Mechanism

The Convention shall be subject to periodic review every five years to assess effectiveness, administrative capacity, and alignment with economic developments.

Legal commentary

The Convention responds to a structural widening gap between public policy objectives and implementation capacity, where increasingly complex fiscal and distributive goals are no longer matched by fragmented national administrative systems. It reframes taxation as a coordinated governance function, recognising that legitimacy now depends on execution quality as much as policy intent. In this sense, the relationship between the

Convention and EU law-making is hierarchical but enabling: the Convention sets binding constitutional-level principles and institutional architecture, while domestic legislation translates these into operational rules and procedures. Law-making remains essential, but it becomes secondary and derivative, focused on implementation within a pre-agreed supranational framework rather than independently defining core tax concepts. This shifts the legal order from parallel national tax systems toward a coordinated legal ecosystem anchored in shared definitions of taxable capacity and enforcement standards.

Two Possibilities:

First, EU regulation throughout the land au menu.

Second, flexible and differentiated tax administration via a convention open for all.

At the EU constitutional level, phased integration would require a gradual transition beginning with enhanced cooperation among willing Member States, initially focused on information exchange, common tax base definitions, and administrative interoperability. This would be followed by the establishment of a central coordinating authority with limited enforcement and supervisory functions, operating alongside national administrations rather than replacing them. In a third phase, harmonised rules on taxable income and allocation of taxing rights would be introduced, supported by binding dispute resolution mechanisms to ensure consistency. Only in a final stage would full consolidation of assessment and enforcement functions occur under a unified tax administration framework, effectively transforming the Convention into a constitutional fiscal layer of the Union. This phased approach allows legal continuity, respects constitutional pluralism, and gradually realigns sovereignty with shared capacity in line with evolving integration needs.

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APPENDIX 1 – Act on a Single Tax Jurisdiction

Article 1 – Purpose and Objective

This Act establishes a single tax jurisdiction and unified tax administration to ensure coherent, fair, and efficient taxation of all economic activity. It aims to strengthen revenue capacity, reduce fragmentation, and align taxation with modern economic realities including digitalisation, mobility of capital, and cross-border value creation.

Article 2 – Establishment of the Single Tax Jurisdiction

A single, unified tax jurisdiction is hereby created, replacing overlapping territorial and sectoral tax jurisdictions. All taxable persons and entities are deemed to operate within this jurisdiction for the purposes of assessment, reporting, and enforcement.

Article 3 – Definition of Taxable Presence

Taxable presence shall be determined by economic substance and value creation rather than formal legal domicile. Indicators include sustained economic activity, digital market engagement, labour utilisation, and effective control of assets or income-generating processes.

Article 4 – Definition of Taxable Income

Taxable income is defined as total net economic gain derived from labour, capital, and digital or hybrid economic activity, subject to harmonised deductions for verified costs. Income classification distinctions are maintained only where necessary for distributive policy purposes.

Article 5 – Consolidation of Income Bases

All forms of income, including employment income, capital income, business profits, and platform-mediated income, shall be consolidated into a single assessment base per taxable entity, subject to standardised adjustment rules.

Article 6 – Central Tax Administration Authority

A Central Tax Administration Authority (CTAA) is established as an independent public institution responsible for registration, assessment, collection, compliance monitoring, and enforcement of all tax obligations within the jurisdiction.

Article 7 – Digital Tax Infrastructure

The CTAA shall operate a unified digital tax infrastructure enabling real-time reporting, automated data validation, and interoperable integration with financial institutions, employers, and regulated platforms.

Article 8 – Data Governance and Privacy Safeguards

All tax-related data processing shall comply with strict data minimisation, purpose limitation, and security standards. Access to taxpayer data shall be strictly controlled and subject to independent oversight mechanisms.

Article 9 – Compliance and Risk-Based Enforcement

The CTAA shall adopt a risk-based compliance model prioritising enforcement resources based on behavioural risk indicators, cross-border exposure, and complexity of income structures.

Article 10 – Taxpayer Rights and Procedural Fairness

Taxpayers shall have the right to transparent assessment reasoning, timely notification of obligations, structured appeal procedures, and access to digital tax records.

Article 11 – Harmonisation and Replacement of Existing Legislation

Existing tax framework legislation shall be repealed or consolidated to the extent necessary to ensure full legal compatibility with this Act. Transitional provisions shall ensure continuity of revenue collection during implementation.

Article 12 – International Coordination

The single tax jurisdiction shall engage in binding international coordination mechanisms for information exchange, minimum standards, and resolution of cross-border tax allocation disputes.

Article 13 – Fiscal Transparency and Accountability

The CTAA shall publish regular aggregated reports on tax collection, compliance rates, and revenue composition. Independent audits shall be conducted annually to ensure institutional integrity.

Article 14 – Integration with Broader Policy Objectives

Tax policy under this Act shall support broader objectives including economic resilience, equitable distribution, gender equality, and sustainable public finance, without compromising neutrality in administration.

Article 15 – Entry into Force and Transition

This Act shall enter into force on a phased basis. Transitional arrangements shall ensure gradual integration of systems, legal continuity, and adaptation by taxpayers and institutions.