

Abstract for the 27th ATTA Conference

Whether Political and Economic Integration in the EU Is a Case of Failed Tax Harmonization: A Neofunctionalist Response

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In the European Union (EU), one common perception is that decisions on tax matters are based purely on preferences of Member States. Under this view, interests of Member States alone determine the extent to which they will transfer national tax authority to the EU and the lack of tax harmonization across EU members is an instance of failure in EU political and economic integration.

Using the *prima facie* least harmonized tax area in Europe, corporate taxation, I take a different position. I do not altogether discard the role of national interests in determining the extent to which tax authority may be pooled from Member States to EU-level. Considering these issues out of a broader context however, I suggest that the role of national choices in determining agreed levels of pooled EU tax authority and the view that the limited harmonization to date represents a failure of the EU integration may be misconceived. While national governments may apparently be the visible sole actors determining tax policy making, there exist other players in EU. From the national standpoint, or what the scholarship labels as intergovernmental approaches, the fuller story therefore remains untold. This study evaluates the process of harmonizing national tax rules from this broader picture framework.

The approach adopted in this paper has been described as “neofunctionalism”, the term used to describe a theoretical model that explains how supranational governance can develop alongside and even in consequence of national choices where national players realize there may be more long run national gains from transfers of sovereignty. This model, in contrast to one based on intergovernmental bargains driven by narrow parochial interests, considers how the supra-state and non-state actors who shape the national decisions behind the scene and tend to construct supranational governance over time. Taking this broader perspective, the analysis suggests the shift of tax authority from Member States to the central EU-level might be slow and gradual but is inevitable. The descriptive and statistical evidences together with jurisprudential analysis offered in this paper are supportive of this premise. Instead of ascribing the limited tax harmonization to date as a failure, this study views it in the wider context as a stage in the ongoing evolutionary process of the EU political and fiscal integration.

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