TAXUD DIRECTOR GENERAL
Gerassimos THOMAS

DIALOGUE WITH ABP

30 March 2022

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1. SCENE SETTER

You will participate at the dialogue with ABP Tax Platform.

ABP is a pension fund for workers in the government and education sector in NL. The fund has adopted a tax policy considering taxation as a 'financial facility' to provide the financial means for government to provide for social services.

The ABP Platform is made of large institutional investors, such as pension funds and sovereign wealth funds, not necessarily all situated in the EU. As a platform, they discuss tax developments and issues related to regulations and their investment portfolio. Following your virtual meeting on October 27, ABP expressed interested in a day-long meeting in Brussels, with the aim to both: (i) enhance the understanding that the platform-members have of the relevant pending and announced EU policy proposals, and (ii) provide the opportunity for the platform-members to share knowledge and present insights which are relevant for the design of these policies. For that reason, they want to have a dialogue of approximately an hour on the high level tax policy environment, and a separate 2 hours session to discuss the technical proposals which the Commission is involved in.

They want to engage with us in the spirit of having some information exchange, as lobbying is prohibited for some of these funds.

The event of 30 March will last for 3 hours (9h00 -12h00) and be organised as follows:

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<th>Time</th>
<th>Agenda topic</th>
<th>Speaker</th>
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<tr>
<td>09.00</td>
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<td>09.05</td>
<td>Welcome of the Commission</td>
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<td>09.25</td>
<td>Presentation by the Commission of the key factors driving the Commission agenda and the policy ambitions for the tax environment of institutional investors</td>
<td>Mr. Gerassimios Thomas</td>
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<td>09.25</td>
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<td>09.45</td>
<td>Industry presentation on the current environment for institutional investors and its (tax) challenges and opportunities</td>
<td>ABP</td>
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<tr>
<td>10.05</td>
<td>Exchange of thoughts</td>
<td>All participants</td>
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<td>Moderator: Mr.</td>
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<td>10.05</td>
<td>Short coffee break</td>
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<td>10.15</td>
<td>Q &amp; A session on issues of general relevance for pension funds and sovereign wealth funds and/or the EU:</td>
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<td>10.15</td>
<td>- Securities lending and dividend entitlement arbitrage &amp; Qualification of funds/fund vehicles</td>
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<td>11.45</td>
<td>- The use of SPV’s by PF’s/SWF’s</td>
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<td>11.45</td>
<td>Final conclusions and next steps in the dialogue with the EU</td>
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<td>12.00</td>
<td>Lunch</td>
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ABP shared a short presentation introducing the specific discussions taking place in the second part of the dialogue.
2. PART 1 – GENERAL INTRODUCTION - SPEAKING NOTES

- First let me thank you for taking the initiative of this dialogue today.

- I would like to give you a general overview of the main tax challenges we are facing in these moving times. In particular, I would like to introduce what are the key priorities in the area of taxation, beyond tax transparency, for DG TAXUD and for the Commission, for the years ahead of us. I know you will have a deep dive into the specific topics of your interest with my colleagues at 10h00, so let me frame this more technical discussion into a broader picture.

- We are living in extraordinary times. The unimaginable has happened - war has returned to the European continent.

- Prior to this tragic reality, the European economy was slowly but steadily recovering from the economic slump created by the Covid-19 pandemic, supported by the rollout of our unprecedented recovery plan, Next Generation EU.

- Our winter forecast projected growth of 4% in 2022 for the EU as a whole, moderating to 2.7% in 2023. These projections were made before the outburst of the war in Ukraine.

- There were, of course, already a number of challenges underpinning these numbers. The economic momentum has been softened by the swift spread of Omicron, and the mounting inflation driven by rising energy prices and supply chain disruptions.

- The war will likely have a negative impact on EU growth by reinforcing these challenges, increasing the already high
uncertainty, leading to further energy price hikes, more persistent supply-chain bottlenecks and confidence effects. In addition, rising social concerns are related to the spiralling commodity prices, notably gas and oil, but also wheat, among others.

**Green agenda, energy taxation**

- The Russian unjustified invasion of Ukraine highlighted, once again, the need to accelerate our green transition. This is not only an environmental necessity but also important for our geopolitical agenda.

- The Commission adopted on 8 March a communication to RePower EU with a view to ensuring more affordable, secure and sustainable energy.

- REPowerEU is the EU plan to make our energy markets more resilient and operate in the most optimal way. It will also help accelerate our clean energy transition.

- In the short term, it is clear we need immediate measures to cushion the impact that this war and its collateral impact have on the purchasing power of EU citizens.

- On 23 March, as a follow up to the European Council in Versailles, the Commission published a Communication on security of supply and affordable energy prices, presenting the benefits and drawbacks of concrete exceptional measures to temper price spikes. Such emergency support aims at providing relief to end-consumers, while not distorting the longer term overarching Green Deal objectives of decarbonisation and energy efficiency, nor undermining the functioning of the Single Market.
Coordination will play a key role in this regard. The possibilities contained in the toolbox for action and support to tackle the exceptional rise in global energy prices, presented in a Communication of the Commission on 13 October 2021, remain relevant and should be continued for as long as necessary.

In the mid-term, the solution lies in combining our higher climate ambition with our social imperative. The roll-out of Fit for 55 is the best strategy to avoid situations of energy price hikes in the future.

One of the initiatives within the Fit for 55 is an updated energy taxation system. The revised Energy Taxation Directive introduces a new structure of minimum tax rates based on the energy content and environmental performance of the fuels and electricity. It aims to support the green transition by sending the right price signals for sustainable energy consumption.

The review of the ETD will contribute actively to the goals of the Repower EU by basically increasing taxes on fossil fuels and reducing taxes on less polluting fuels. This is also in line with the increasing sustainability concerns.

Within the same package “Fit for 55”, the Commission proposal for a Carbon Border Adjustment Mechanism (CBAM), on which EU Ministers of Finance found an agreement in the Council earlier in March, will also constitute an essential element of the EU toolbox to incentivising an industrial transformation towards greener, more sustainable production processes both within the EU and in third countries. CBAM indeed responds to the fact that climate change is a global problem. The EU can have all the ambition in the world,
but only with matching efforts from our trade partners can we achieve a real green transition.

- With CBAM, the price of carbon between domestic products and imports will be equalised, and this will ensure the EU’s climate objectives are not undermined.

**Fairness, transparency, and revenue enhancing**

- Despite the extraordinary circumstances, it is important not to lose sight of our long-term agenda. There is a rising demand for increased fairness and transparency.

- A key priority for the European Commission in the area of business taxation is of course the implementation of the **OECD tax deal**. The implementation of the two pillars of the global agreement by 2023 will make sure that our tax system reflects the new reality of our economies, and allows for a levelled playing field between all business models where all companies, including digital ones, pay their fair share of taxes in the right place.

- On 22 December 2021, the Commission proposed a Directive for the implementation of Pillar 2 on effective minimum taxation in the EU, to ensure a consistent application of the rules in the single market.

- Our Proposal follows closely the OECD Model Rules, the adjustments made in it aim to ensure compliance with EU law. There is no gold plating compared to the OECD agreement.

- Our Proposal ensures legal certainty and compatibility with the EU Treaties and the Single Market Framework. It will put a floor on
excessive tax competition between jurisdictions, thus contributing to both fair taxation and a sound business environment.

- EU Ministers of Finance had an exchange of views on our Proposal mid-March. I am pleased to say that all EU Member States support the need for a Directive and the political need for a continuous European leadership on this issue. The French Presidency worked in record time to present a compromise text. Unfortunately not all Member States could support it at the time, despite their overall support to the proposal. The Presidency intends to reach the agreement on the general approach on the proposal at the next ECOFIN in April.

- On Pillar 1 on reallocation of taxing rights, we plan to propose a Directive implementing the framework into the EU as soon as the work at OECD level is mature enough.

- Pillar I will reallocate some of the taxing rights of the world’s largest and most profitable multinationals to the markets where they operate and make profits, whether or not the firms have a physical presence there.

- The OECD is currently doing a tremendous work to translate such political agreement into a multilateral convention.

- A number of technical issues are still open. For example we need to design a simple and fair mechanism to eliminate double taxation and ensure that Amount A would not result in double counting for those business that already book residual profit in the market jurisdictions.

- The OECD has started public consultations and we would encourage you to provide input.
• [The current timetable, which aims at completing the work on multilateral convention as well as on the model rules by June, is undoubtedly ambitious. But I am confident that it is achievable. And it is key that we keep the political momentum.]

• In the meantime, we have already put forward a proposal for an own resource based on Pillar One.

• A lot of work remains ahead of us, but I firmly believe that we will collectively succeed in providing a fairer and more stable global corporate tax system. We have already travelled a long way, and expectations are very high: failure is not an option.

• This said, harmful tax competition, fair taxation and the need for more transparency, will continue to be high on the political agenda worldwide for a long time even if we succeed quickly in implementing the two Pillars solution at EU level. We have to keep in mind that tax avoiders and evaders also develop new practices to circumvent the measures in place and economic activities are more mobile and faster than any legislator around the world.

• We therefore need to continuously work to further strengthen our armoury against tax abuse.

• On 22 December 2021, the European Commission also presented a key initiative to fight against the misuse of shell entities for improper tax purposes. The UNSHELL proposal should ensure that entities in the European Union that have no or minimal economic activity are unable to benefit from any tax advantages and do not place any financial burden on taxpayers. This will also protect the level playing field for the vast majority of European businesses and investors, who are key to the EU’s recovery, and
will ensure that ordinary taxpayers do not suffer additional financial burden due to those that try to avoid paying their fair share. This is certainly something important for pension fund like ABP. You will speak of UNSHELL more in detail with my colleagues, later on this morning.

- UNSHELL is part of the EU toolbox of measures aimed at fighting abusive tax practices, which will be complemented by other initiatives in 2022. Commission services are thinking about new initiatives to respond to the challenges linked to non-EU shell entities and tax evasion and avoidance.

- In addition, the 7th amendment to the Directive on Administrative Cooperation (DAC8) will equip tax administrations with the information needed to cover crypto-assets.

- DAC8 will ensure greater transparency and will take into account other international developments in this field, such as the one of the Organisation for Economic Co-operation and Development (OECD) if it can be finalised within a reasonable timeframe, which we support. Most recently we got the impression that Member States would like us to go ahead rather sooner than later.

- DAC8 will improve the ability of Member States to detect and counter cross-border tax fraud, evasion and avoidance resulting from certain crypto-assets transactions.

- At the same time, the planned EU initiative will provide a coherent set of rules throughout the EU and in line with global agreements that will reduce administrative burdens and contribute to a level playing field.
• In a world still recovering from the COVID-19 and at the edge of facing the consequences of the war, only protecting our financial interests will not be enough. More than ever, the current context calls for bold measures that will support rebuilding our economies while transiting towards a greener, more digitalised, economy.

• Our green and digital transitions will require new technologies and innovation that imply large investments. And break-through technologies often require equity financing due to their risk structure.

• The current "debt-bias" induced by most EU tax systems not only leads to higher debt levels, which make companies more fragile and economies more vulnerable to crises. It also hinders the development of equity financing which is crucial for innovation.

• This Spring (May), the Commission will make a proposal for a debt-equity bias reduction allowance (DEBRA). It will help mitigate the debt equity bias and supports companies in their quest for equity finance.

• This measure is only a starting point of a broader reform of our EU business tax system.

• Very much of your interest, the Commission is committed to present a proposal to improve withholding tax procedures. The Commission announced in its Action Plan for fair and simple taxation supporting the recovery strategy (July 2020) that further work is needed after many initiatives in this area failed to remove the hurdles that cross-border investors face to receive their refund from the source country. At the same time, several Member States were confronted with large cases of fraud related to withholding
taxes and more specifically the abuse of weaknesses in the procedures to claim a refund.

- The Commission services are now gathering input from stakeholders and from tax administrations. Our intention is to also launch a public consultation at the beginning of April. These contributions will feed into the design of the proposal. Your contribution will be highly valuable.

- On the shape this proposal could take, I leave it to my colleagues to expand a bit more later this morning. We aim to present a proposal at the end of this year.

- [At this stage, I can say that we are looking into ways to ensure greater transparency and digitalisation. This could include developing minimum common standards of data that will need to be provided to tax authorities, using digital tools to perform risk management, an EU-wide registry for approved financial intermediaries or an EU approved digital tax residency certificate.]

- In 2022, the Commission is also planned to table a proposal to improve public transparency around the **effective rate** at which large corporate groups pay taxes in the EU.

- The effective corporate tax rate provides information regarding the proportion of corporate tax paid by companies relative to the amount of profits they generate rather than relative to their ‘taxable profits’, which can be reduced through various means such as tax allowances. Hence, the proposal will allow public scrutiny where aggressive tax planning strategies are used and will provide policy-makers with a better overview of the tax contribution made by large multinational companies in the EU.
Since the liable multinational groups will fall within the scope of Pillar 2, they should have the calculation of the effective rate at which their members pay tax readily available. This initiative will hence not create additional burden to businesses (or tax administrations). In addition, the remit of this initiative will be limited to groups headquartered in the EU so to ensure effective enforcement.

Finally, in 2023, as you know, the Commission will put forward a proposal for a holistic EU business tax framework fit for the decades to come - The “Business in Europe: Framework for Income Taxation” (or BEFIT).

The agreement on the two-Pillar solution by the OECD/G20 Inclusive Framework on BEPS marks a historic step forward toward addressing various issues in 21st century corporate taxation. However, while historic, the scope of these reforms does have its limitations. Further works needs to be done to bring the European and global corporate tax frameworks more in line with the realities of today’s world. In addition the reform will lead to an increase in the compliance burden for taxpayers and tax administrations. This is particularly relevant in the context of the EU Single Market.

A broader EU corporate tax framework must be designed to contribute to a stronger Single Market for Europe's recovery. It should reduce compliance costs for businesses, facilitate cross-border investment, and provide the right environment for SMEs and larger enterprises alike to thrive in a green and digital Europe.
Business taxation should ensure that the tax burden is fairly shared across businesses and that taxable revenue is fairly shared between different jurisdictions. The overall system should be simple, in order to reduce compliance costs, and should facilitate investment and growth, thus reinforcing the Single Market. Despite progress in removing barriers to the Single Market in other areas, companies doing business in the EU still need to grapple with up to 27 different national tax systems. This multitude of national tax rules creates unnecessary compliance costs for businesses, which discourages cross-border investment in the Single Market.

It also leads to loopholes and complexities that can leave open opportunities for aggressive tax planning, hampering the level playing field. It hurts investment and growth, as well as the EU’s competitiveness in comparison to other international partners.

Therefore, there is a case for going beyond the OECD/G20 agreement in the EU.

The Two Pillars can be used as a starting point for a comprehensive reform of our EU business tax system. The Communication on Business Taxation in the 21st Century, published on 18 May 2021, announced the Commission’s intention to table BEFIT, the “Business in Europe: Framework for Income Taxation” in 2023.

BEFIT will be a holistic EU business tax framework fit for the decades to come.

This proposal will move the EU towards a common tax rulebook and provide for fairer and more efficient allocation of taxing rights between Member States. The proposal will also improve the
compliance burden for companies which is of particular relevance given the volume of new legislation in this area.

- BEFIT will be a deeper, more structural reform to the EU’s business tax framework that will be consistent with, and build on, the OECD Two Pillar Approach.

- My services are currently at the stage of reflection and are consulting widely with stakeholders in order to properly frame the new challenges and assess which aspects of current corporate tax systems require reforms. Your contribution will be particularly valuable in this regard. The Tax Symposium that DG TAXUD will be organising in the second half of this year will include an important series of events for BEFIT and serve as an excellent opportunity to explore our way forward and set an ambitious timeframe.

- As you see, striking the right balance between fair, efficient and sustainable taxation is and will remain at the heart of the EU’s tax policy making in the years to come. This was the guiding thread of our Communication on Business Taxation for the 21st century that we published in May 2021 and remain all the more valid in these challenging time.

- I will now stop here and listen to your remarks and possible questions.