EXECUTIVE SUMMARY

Requested by the FISC subcommittee

Tax Barriers and Cross-Border Workers

Tackling the Fragmentation of the EU Tax Framework

Policy Department for Economy and Growth
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ABSTRACT

This interdisciplinary report focuses on tax barriers to cross-border mobility of workers in the EU. Tax fragmentation creates multiple negative impacts on the EU Internal Market, and compliance costs vary considerably across size, industries and countries. Further, employees' choice of host country may be distorted by the tax differential. The report concludes with specific policy recommendations for more tax harmonisation and coordination, and for simplified compliance requirements.

This document was provided by the Policy Department for Economy and Growth at the request of the Subcommittee on Tax Matters (FISC).

The present document is the executive summary of the study on "Tax Barriers and Cross-Border Workers: Tackling the Fragmentation of the EU Tax Framework ". The full study can be downloaded at: https://www.europarl.europa.eu/committees/en/fisc/supporting-analyses/latest-documents

Background

Since the COVID-19 pandemic, the number of cross-border workers, including frontier workers, posted workers, self-employed and remote working individuals, and digital nomads has increased significantly. Frontier workers, remote and posted workers abroad, and self-employed persons are individuals who live in one country but work or operate a business in another. Their situation is often similar to that of highly mobile workers, who face tax obstacles when acting across borders. Such obstacles had been identified ten years ago by a group of experts appointed by the EU Commission (hereinafter: the 2015 EU Commission Expert Report) and have not been solved until now. Digital nomads, by contrast, regularly telework from a location or country different from where their income originates, often from multiple or constantly changing locations around the world. In 2022, approximately 1.8 million workers in the EU and EFTA countries were reported as living in one Member State while working in another, and the figure is likely higher after COVID-19. Cross-border commuters exercise their right to move freely for work within the EU, benefiting from diverse professional opportunities. Cross-border work can also stimulate economic growth and strengthen cohesion in EU border regions, covering around 40% of the EU's territory.

All groups of mobile workers are confronted with diverse and sometimes conflicting tax regulations across European Union (EU) Member States. This creates cross-border tax barriers and contributes to the fragmentation of the EU's tax framework. This fragmentation stems from the lack of a unified EU tax policy and exposes the Internal Market to persistent structural tax disparities. It may result in multiple negative consequences, particularly regarding tax compliance. These challenges can discourage employers from hiring foreign-based workers and prevent employees from accepting jobs in other EU countries—even when remote working would make such arrangements feasible.

The EU Parliament's awareness of the tax barriers is reflected in the resolution of 10 March 2022 and the hearing of the EP Subcommittee on Tax Matters (FISC) on 9 January 2023, which follow prior legal and policy studies of the Reports presented by the EU Commission Expert Group, presented in 2015.

Aim

This interdisciplinary study examines tax-related barriers to the cross-border mobility of workers within the EU. It approaches these challenges from legal, economic, and business perspectives, identifying key problem areas and exploring potential solutions to ensure fair taxation of workers both at the national and EU levels. The study provides a structured overview of the legal tax fragmentation affecting various categories of mobile workers operating across national borders within the EU Internal Market. It also assesses the compliance burden for employers and employees, including employees' implicit costs.

The scope of the study is strictly limited to tax barriers faced by workers in cross-border contexts. It explicitly excludes other areas such as inheritance taxation, income taxation of non-worker individuals (e.g., artists, sportspersons, freelancers and directors), social security, labour law, unemployment and pension issues, capital income, and other contributing factors that may also play a role in the broader landscape.

Key Findings

The legal, business, and economic analysis come to the same conclusion: existing cross-border tax disparities in the EU make it more difficult for individuals to exercise the right of free movement.

From a legal perspective, as there is evidence of an impact on the Internal Market, positive tax integration should be considered in the form of coordination or harmonisation. Positive integration is needed in all areas where critical issues in cross-border income taxation arise and generate tax disparities. This includes workers who relocate, even on a short-term basis, to another EU Member State, and those who are not obliged to, but are nevertheless suffering a less favourable treatment than other workers operating in a purely domestic scenario. Frontier workers might require dedicated solutions, which can be addressed by allocating exclusive taxing rights to the State of residence or through other bilateral agreements that better reflect the specific context. The latter is the case of the Öresund region, which may serve as an example of good tax policy. In that region, a bilateral agreement has removed tax barriers between Sweden and Denmark, securing specific answers to a specific problem.

The impact of additional compliance costs on businesses varies considerably across size, country, and industry. Small firms are particularly vulnerable. Firms in Luxembourg and Slovenia, and companies operating in the construction industry, are disproportionately affected, with profitability suffering more than in other countries or industries. From the employees' perspective, both explicit and implicit costs of cross-border mobility also differ by country. For example, Belgium tends to be attractive for low-income earners. In contrast, Bulgaria presents the opposite pattern: it is more favourable for high-income individuals than for those earning less. Moreover, relevant tax disparities concerning compliance dissuade workers from exercising their right to free movement and employers from recruiting individuals in a cross-border context.

The study makes several explicit policy recommendations, including "split-year rules" regarding the timing of relocation; coordination of the definition of tax residence among Member States; harmonization of exit tax; a switch to exclusive allocation of taxing rights with the state of residence for frontier workers and highly mobile workers, except in the presence of specific reasons that make other options preferable; differentiated approach to remote workers and digital nomads; and strict simplification of tax compliance requirements.

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