DRAFT EAN PAPER ON EUROPEAN TAXATION

INTRODUCTION

For most people, the struggle for democracy was above all a struggle for a just society. After the step-by-step breakthrough of parliamentary democracy mainly after World War II, inequality declined in all industrialised countries for more than 30 years. But with the triumph of neoliberalism in the 1980s, the concentration of wealth in the capitalist world in a few hands has again alarmingly increased. This has had a massive impact on trust in democracy, on the participation of the working class in elections and on the fact that many people have turned to far-right populism out of a sense of dereliction.

Mitigating inequality is therefore essential for the future of democracy, and the design of a progressive, equitable, sustainable, resilient tax system that rewards work and penalises unproductive income has become crucial.

The enormous problem of climate change and the need to protect the environment also highlights the need to mobilise all public policies to finance an urgent ecological transition. The human, economic and social cost of climate inaction is certainly a matter of debate, but the various studies on the subject agree on one fundamental point: doing nothing would be incomparably more costly than taking strong action.

Consequently, the Attac European Network presents this paper outlining what a tax system should look like in which inequality is reduced and the financing of a just, ecological and democratic society is possible.

The document is part of a critical analysis of European budgetary and monetary guidelines, which to a large extent condition national public policies.

It is based on several observations. First, tax (fiscal) and social injustices have developed under the impact of neoliberal policies. Second, social and ecological issues are closely linked. A real ecological and social transition or bifurcation, namely making the fight against all kinds of inequalities (income, wealth, etc.) a priority implies that all public policies are determined by this transformation.

Taxes, levies and redistribution

Taxes (general financing of public expenditure), levies (earmarked revenues) and charges or contributions for public services should be considered together with the system of government redistribution and social spending in their overall effect.

The tax system should consist of a variety of specific types of taxes: environmental and health taxes, sales taxes, income taxes, wealth taxes, corporate taxes, financial taxes, social security taxes and fees.

There should be a shift in the tax burden from labour to wealth and capital: The tax burden on labour income will be reduced for the majority of the population and the tax burden on wealth and capital income will be significantly increased.

Gender analysis needs to be strengthened in any modification of the tax system. Statistics for each tax should be disaggregated by territorial area, activity and gender as a tool to make decisions on social policies.

Mobilising public finances for transition

The orientation of public finances and their governance shall be revised to organise the economic and social transition. The current framework must therefore be amended in order to implement a set of social and ecological financing laws:

- Put democracy back at the centre of the budget debate: Parliament must be at the centre of the decision to implement and control resources for social and ecological change. The population and the civil society must be involved in budget decisions (training, consultation, even co-construction).
- Meetings between parliamentarians and representatives of industrial and financial interests must be transparent, as must the organisation and allocation of public aid to companies.
- Challenging the neoliberal budgetary framework and its austerity course and orienting investments towards social and ecological transition planning.
- Finance the public investments that must be made to enable the transition with the additional public revenues generated by a major tax reform.
- Therefore the State's share of the economy should be between 50% and 60% of the country's gross domestic product.

Economic and tax justice

A symmetrical Gini index of less than 20% for income and 50% for wealth should be included in the Treaty on the Functioning of the European Union or the National European Constitutions as a concrete and enforceable target for a fair tax system. Compliance with this target should be reviewed annually by a parliamentary commission. This committee will make proposals for further development of the tax system if the data are not close to the target.

Decentralisation and financial equalisation

Our target is a decentralisation of the tax-system. Income tax for annual incomes up to 50,000 euros (basic income tax) becomes a municipal tax with municipal tax rates; incomes above this amount are taxed uniformly by the federal/central government.

Corporate taxes will go to the states/regions up to a profit of EUR 2 million, depending on how the countries are organised. For large commercial companies with profits above €10 million, tax administration, in the case of the EU, will be carried out by the Commission.

Taxes and levies on international transport (road, rail, air and sea) go to the EU.

VAT will go proportionally to the EU, the federal/central government, the regions and the municipalities. The distribution key guarantees a distribution of the total tax revenues, excluding social contributions and national income tax, according to the key 1:2:2:5 for the four levels.

The financial equalisation between regions and municipalities should be done in such a way that the demand per inhabitant is guaranteed at an average assessment rate according to objective criteria (number of inhabitants, unemployed, elderly, children and supplements for regions with development needs) (Swedish model).

International tax authority and international tax and social policy

An international tax authority, as a sub-organisation of the UN, should be responsible for establishing international tax conventions. We therefore support the proposal for a UN Framework Convention on Taxation. International coordination and the establishment of minimum standards, as is already being agreed for corporate taxation, is important for the implementation of good tax and social systems. Europe should lead the way in this direction.

Sales and excise taxes and duties

Abolish the reduced VAT rate. Basic plant-based foodstuffs, personal care products and housing rent will be exempt from VAT.

Implement a luxus-VAT-rate on the purchase of luxury goods (expensive jewellery, expensive cars, yachts, small airplanes, works of art, etc.) Launch an ambitious Europe-wide financial transaction tax (FTT), covering trading in shares, bonds, currencies with 0.5%, and for derivatives with 0.1% of the nominal value of the transaction. One third of the amount raised would be allocated to the EU's own resources and two thirds to the UN for climate, environment and poverty reduction policies.

Green taxation

A fair and effective tax system to reduce greenhouse gas emissions and all environmental objectives cannot be achieved without comprehensive tax reform. The entire tax system needs to be reformed.

Review existing environmental taxes with the aim of harmonising them at municipal, regional, national and European level, as a coordinated instrument to reduce harmful consequences for health and the environment.

Tax all greenhouse gases according to their effect, with a base value for 2020 of 50 euros per ton of CO_2 equivalent and an annual increase of 10 euros, which may vary according to an annual assessment.

Increase taxation of fossil fuel consumption and abolish exemptions for aviation gas and marine diesel, as part of the necessary energy transition.

In the case of vehicles with internal combustion engines, the tax on mineral oils will be phased out with the switch to electric vehicles. Instead, the vehicle tax should be increased significantly and in stages, as energy consumption per seat increases. This tax should be complemented by a municipal toll in towns and cities and a tax on the number of kilometres travelled with a free distance from residence.

Approve the introduction of a tax on single-use plastic articles, including those intended to contain or protect goods or food, with a view to phasing them out.

Redistribute through taxation - principle rules

The objective of the tax system should be a distribution of income and wealth that is accepted by all people. This objective should be set in a broad social deliberation.

The maximum annual income limit for individuals is €2 million. Any increase of the market value of assets is also considered as income. Net worth will be capped at €20 million. Assets exceeding this amount will be taxed in such a way that wealth is gradually reduced to the upper limit.

Time limit: assets must not be able to be passed on unchanged over generations.

Reduce the fiscal duality of personal income tax caused by the favourable taxation of capital income as opposed to labour income.

Income tax

All income should be taxed uniformly with a tax scale that promotes progressively.

Each person will have a tax exemption of €10,000. The tax rate increases progressively to 90% from an annual income of €40 million. This tax rate is possible if tax evasion is no longer feasible thanks to the international exchange of information. Corporate income tax can be set off against income tax provided that the return on equity of the company to which the tax is levied is less than 15%.

Increases in market value are considered income and must be declared annually. Increases and losses are calculated on the basis of 70% of the value of the assets and spread over 10 years. The taxation of increases in the value of assets of up to EUR 1 million used for old-age provision can be exempted by offsetting against other retirement benefits.

The principle of global income should also apply to local citizens living abroad. In the case of income from abroad, the taxes that should be levied on it can be offset against the taxes paid there. In the case of foreigners, only income earned in the country where they live is taxed there.

Abolition of marriage taxation and its replacement by individual taxation. There will be a staggered transitional regime for its full implementation.

Corporate taxation

Corporate tax of small and medium companies are reduced by a tax exemption and a progressive taxation zone. Therefore corporate tax will start at 10%, with an exempt amount of 20,000 euros, and increase to a tax rate of 40% for business profits above one million euros. It will be fully deductible from income tax.

Apply international minimum tax rates on corporate profits, ensuring an overall taxation of profits of 20% to 40% (increasing progressively with GDP per capita).

Companies with a capital of more than 20 million euros are taxed, if applicable, on excess profits. If the return on equity is higher than 15%, the tax rate on the part of the profits exceeding the 15% return increases progressively to 80% for returns above 30%. This excess profits tax cannot be offset against income tax.

For public utility companies and cooperatives, the tax rates will be reduced by 25% each. The maximum tax rate will then be 30%.

Unitary taxation (UT – US: formula apportionment): The profits of international companies are added up worldwide (global balance sheet) and then divided between the countries in which the company operates (total group taxation). The basis for the calculation should be a formula that takes into account turnover, tangible investments, employees (50% salary costs, 50% number of employees) and, in the case of digital groups, the number of users.

The investments in an investment fund have to be handled and taxed like private assets of the owner. Therefore they were taxed as private wealth and the growth of the assets are taxed by private income-tax.

Replace double taxation avoidance measures by a deduction of the tax actually paid abroad or domestically.

Push for the creation of a Tax on Certain Digital Services until such time as the rules for taxing multinationals in the country where they make their profits are agreed within the OECD.

Property taxes and levies

Wealth tax: All assets, including foreign assets, are taxed at market value according to a progressive scale from 0.5% up to 20% for billionaires. There shall be a tax exemption of 1 million euro.

Inheritance tax is payable by the heirs. All assets are taxed in the same way, including company assets. The progression remains the same as today for heirs of the first degree. Above 5 million, however, it increases from 30% up to 90% for multi-millionaire heirs

Taxation of foundations: Foundations with private beneficiaries are considered as property of the beneficiaries and will be taxed as such in the future. Non-profit foundations enjoying tax benefits have to become public foundations or have to pass into the ownership of a non-profit institution after 30 years.

Social security contributions

In the future, social benefits will be differentiated between (1) general and equal benefits for all, (2) income-related benefits and (3) special benefits.

(1) General social benefits – equal for all people – are financed by a 15% levy on the whole national income - capital income and labour income, paid by the firms. They shall include the following:

- The health system, which includes the basic costs of care, i.e. a uniform citizens' insurance for all.
- A basic pension of 1,100 euros per month for all those who have lived in the country for 40 years from the age of 20, pro-rated for shorter periods of residence.
- A basic child allowance of 500 euros per month.
- A basic provision for the unemployed.

(2) The second component of the social system will be an occupational insurance guaranteeing an additional earnings-related occupational pension on a pay-as-you-go basis (the contributions of active workers finance the benefits available at that time) and an additional earnings-related unemployment benefit for a maximum of 5 years (depending on pay periods). This compulsory insurance will be financed by a contribution of 10% of the employee's gross earnings, to be paid on a 50/50 basis by the employee and the employer. Income up to 10,000 euros is exempt. Up to 20,000 euros there is a transitional zone. The maximum contribution limit is 80,000 euros.

(3) In addition, the social system is supplemented by social benefits financed exclusively by the State, especially for people who cannot look after themselves, those in greatest need and those who have not been able to accumulate independent pension rights due to a short period of residence and who also have no rights abroad.

Preventing tax evasion

All citizens and companies are obliged to declare all income and assets and pay the corresponding taxes. Tax secrecy will be lifted on the Swedish model. In addition, the international automatic exchange of information by tax authorities will be implemented vis-à-vis all States, including the US.

Carry out an assessment of the grey economy in Europe, as well as of tax evasion and avoidance, broken down by territory, economic sector and type of tax.

Create a European Tax Agency coordinated with existing national Tax Agencies to share best practices and detect pockets of tax fraud and evasion.

Prohibit companies that directly or indirectly own companies in tax havens with no real economic activity from contracting and receiving public aid, following the path taken by Denmark, Poland, France or Canada.

Urge the European Commission to extend the list of EU tax havens to include those countries that allow tax dumping, even if they are part of the same EU, such as the Netherlands, Luxembourg or Ireland, establishing the appropriate sanctions if the measures on the tax agreements of each country are insufficient to put an end to these practices.

Promote the publication of public Country-by-Country Reports (CbCr), as additional information to the annual accounts of multinational groups.

A European Tax Justice Office and national prosecution offices will be set up. These offices will have the powers of the police and prosecutors' offices to prosecute tax offences.

Criminal tax law

Criminal tax law will be extended to include the following points:

- A corporate criminal law that allows companies to be prosecuted and punished irrespective of proof of guilt of natural persons. Penalties of up to 10 times the amount of unpaid tax should be imposed on companies.
- A management responsibility that designates responsible persons for all business operations. These officers will face prosecution if they cannot demonstrate that they have actively acted against tax offences in their area of business.
- The limitation period for tax offences should only start with the declaration of taxable events, so that failure to declare is not time-barred.
- Disclosure of company data to uncover criminal offences should, in principle, be exempt from punishment. Whistleblowers should be entitled to compensation in case of professional detriment.

Principles of politics for the green economy and its financing

For public policies to be effective, they must be closely coordinated within a mix of social and ecological as well as fiscal and monetary policies. This should respect a number of principles:

- Avoid conflicts of objectives between different public policies. For example, raising key interest rates to combat inflation should not increase the cost of financing the ecological transition, for which preferential interest rates should be applied regardless of the economic situation.
- Coordination of public authorities at the international level. For example, the creation of an international network of central banks and supervisors for the greening of the financial system, bringing together some 100 countries, is a step in this direction.

Recognition of a political hierarchy in the governance of the ecological and social policy mix. For example, putting monetary policy at the service of the general interest and the ecological transition requires reconsidering the current political independence of the ECB.

Mobilising the financial system for the ecological transition

The role of the European Central Bank shall be reoriented towards a greening and resilience of monetary policy, which should take three complementary forms:

- The ECB should directly finance, i.e. issue its own money, to finance governments' green investments, such as the construction of infrastructure (railways, hospitals, schools...).

- The ECB should apply preferential interest rates for lending to banks that finance green projects.

- The ECB should prioritise the purchase of bonds that have been used to finance projects in line with the green bifurcation priorities, such as the construction of a wind farm or spending on renewable energy research and development.

Strengthen the rules and regulation of the banking and financial system:

- Mandatory implementation of a progressive decarbonisation plan by each bank by 2030.
- Implementation of structural green regulation to reduce the proportion of brown assets on banks' balance sheets and increase the proportion of green assets. This proposal by the Veblen Institute would take the form of a ban on new bank lending for fuel finance.
- Strengthen "prudential" rules to ensure that banks protect themselves against future risks. It would be useful to take climate-related risks into account in the calculation of the capital adequacy ratio if they have fossil fuel assets.
- Regulation of green finance to combat greenwashing shall be introduced. This is necessary, especially with regard to the labelling of these financial instruments, the definition of which is often very vague and misleading.
- Creation of a genuine public pole to finance the transition

Principles to consider in relation to the green economy and its financing

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