PES
SOCIALISTS & DEMOCRATS

A New Model for Tax Justice in Europe:

A shift to ensure fairness and sustainability

SUMMARY

As Socialists and Democrats, we believe everyone should contribute fairly to our tax systems. Taxation provides us with the means to fund our welfare systems and the services they provide us all with, including healthcare and education, social security systems, and all other public services. The need for robust welfare states has become even clearer with the outbreak of the Covid-19 pandemic. The last financial crisis, the response to which was austerity and cuts to these basic services for all people, must serve as a lesson to us now: the recovery from the economic and social damage and the rising inequalities we face, which existed already and have been exacerbated by the global pandemic, can and must be different.

In 2008, our economies suffered enormously, and public funds were used to bail out the banking system. Today, our economies are under great pressure once more. This time, though, public investment has been channelled into protecting general interests. High government spending has been much more closely linked to social wellbeing, which is the right choice, and citizens are aware of it. However, understandably, people are worried that, once more, they will be left to bear the costs of the pandemic. Our current taxation systems should be modernized and changed to support the recovery and foster social and environmental sustainability.

This PES Publication presents our views on what a fairer tax system for Europe can look like; one which ensures citizens are not expected to foot the bill left by this crisis, one that it is fairly shared amongst all of society, especially those who have made profits from the pandemic and who do not contribute fairly. Furthermore, for us, the supposed benefits of trickle-down theory – which supports lowering taxes for the rich, supposedly thereby creating benefits for society as a whole – have clearly been disproven. In light of the social gap which already existed before the pandemic that has widened even more. In this regard, we see taxation as a means to promote equal opportunities, including gender equality, and also to combat climate change. Taxation is a national competence, but a coordinated EU approach to it is becoming more and more relevant, notably in light of the tax scandals we have witnessed, such as Luxleaks, the Pandora Papers, and others, and the generalised race to the bottom.

In this context, PES brings forward proposals on how to tackle tax evasion and avoidance, which are currently used as strategies by MNEs and superrich individuals, thereby indirectly undermining social policies. We demand further action is taken regarding non-cooperative jurisdictions, as well as enabling industries. As for the social perspective, PES calls for more progressive taxation systems where those who can contribute more, do so, the mainstreaming of gender equality in all proposals, and a one-off tax on the superrich to palliate the worst effects of the pandemic. We need a shift from labour taxes to taxes on wealth and capital gains. Furthermore, we believe changes to regressive taxes, such as VAT, and a fair tax on capital gains and corporate dividends are key to ensuring a more socially just system. Taxing individuals who accumulate extreme wealth, the number of whom has increased even more due to the pandemic, is also essential.

As regards protecting our planet, PES also aligns taxation with its strong commitment to a sustainable transition, which we define as greening our economies while upholding social justice. In order to pursue this goal, we support a stamp on industrial waste and taxation on activities which harm the environment, for example, on resource extraction or single-use plastic producers. For PES, it is simple: polluters must pay. The review of the Energy Taxation Directive is of the utmost importance, and, in line with this, subsidies to fossil fuels must stop, together with unfair exemptions. The Carbon Border Adjustment Mechanism will also be a key element of the transition. The climate challenge is a global one, so the European Union's external action must not be underestimated.

PES also sets out our proposals for a new model for business taxation, given that the current one is clearly outdated, in particular regarding the digital sphere. A common corporate tax rate should be established, and interim measures, such as a digital levy, should be considered until then. The financial sector should also pay its part. We fully support the OECD's efforts to create a global solution to the digital economy.

To conclude, our view for the EU dimension is the following: we need to reconsider unanimous voting on tax files, new own resources for the recovery, and a fiscal capacity for the Eurozone.

With this, we can achieve a fairer taxation system which leaves no one behind.

FOREWORDS

Sergei Stanishev
PES President

In 2019, we Socialists and Democrats committed in our European Elections Manifesto to continue to led the way towards tax justice. Back then, we already saw the consequences of a lack of a common approach to taxation in Europe, which has an impact on our societies at many levels: tax evasion and avoidance, and aggressive tax planning, mean fewer resources for national and EU budgets, which sustain our welfare systems.

For Socialists and Democrats, the message is clear: everyone – individuals and corporations – must contribute fairly to their tax obligations, and pay taxes where they generate their profit.

We call for strong public investment for many reasons: with the outbreak of the Covid-19 pandemic, the need to have strong welfare systems has become more obvious than ever. We need well-equipped healthcare systems, which can provide medical care for all those who require it. We need a system which can support public infrastructure, help with short- and long-term planning, and also protect its own workers, who have put their lives at risk for us all. Education is another pillar of our societies which is funded through taxation: we must ensure this fundamental right is ensured for all despite the emergency situation.

Overall, our social systems have been instrumental to avoid the devastating effects on our societies we saw during the last financial crisis and the response at the time, based on austerity: this time, early unemployment schemes, such as the SURE programme, social benefits, and retraining programmes, have protected those worst affected in these difficult times. However, even with all these measures, most of which were put forward by our political family, gaps in society – between the rich and the poor, between men and women – have widened. The most recent tax scandals, including Luxleaks and Openlux, have proven, once more, that not everyone is doing their part. This is why our work towards a fair tax system must continue.

Taxation can also be used to mitigate the effects of climate change, which is the biggest global challenge we are facing. We must push for investment into clean energies.

In line with our core values of social justice and solidarity, protecting the environment, and gender equality, we want to ensure that everyone has access to quality public services. This can only be done if each and every individual, be it people or companies, pay their fair share of taxes.

With the guiding principles and concrete proposals we are putting forward, we firmly believe a more just system can be created. It is time for our tax system to deliver for all.

Maria Joao Rodrigues
Chair of PES Financial and Economic Network

In the past year, taxation has become a central issue in the political sphere for a myriad of reasons: the need to address the immediate challenges to our economies caused by the Covid-19 pandemic, the long-term recovery, the further digitalisation of our economies, the uncovering of more and more tax scandals, the urgent need to decarbonise our economies, and many more.

The challenges we currently face are complex and interconnected. Our tax systems have shortcomings which fail to address the biggest issues of our times: the climate emergency, the new business models, especially in the digital economy, or the social impact of regressive taxation. At the same time, these feed into each other: extractive business models have a high impact on our planet and do not pay their fair share; therefore, governments have fewer resources they can allocate to face the consequences of climate change on the planet and people, also because of tax evasion and avoidance; environmental and social issues become worse, and therefore require higher investment. For this reason, at PES, we have integrated all the perspectives into this publication, in order to present a holistic view of how we can make tax systems more equitable and fit for our times, in line with our socialist and social-democratic values.

As Chair of PES' Financial and Economic Network, it has been my pleasure to lead our meetings focused on these important topics. Thanks to the enriching exchanges we have held, with many comments and input from our participants, we have produced this publication, which addresses each of the areas where taxation can be used to improve people's lives and create a fairer, more sustainable society. We bring forward a series of proposals on how this can be achieved. I would like to thank PES Women for their contributions and for their publication, 'A Feminist Economy for Europe', which complements our work in the Financial and Economic Network.

With 'A New Model for Tax Justice in Europe: A shift to ensure fairness and sustainability', we hope readers will gain insight into how taxation can be transformed to support a more just society, which encompasses protecting the planet, upholding social fairness and gender equality, and making sure everyone contributes to the welfare system we all benefit from. With our ideas and proposals, we are leading the way towards a better society of wellbeing for all people.

Yonnec Polet
PES Deputy Secretary General

Our political family has always stood for tax justice. We firmly believe that well-functioning welfare states are the best way to guarantee social fairness, and these require equally well-functioning taxation systems. Redistribution is the way to improve the lives of all people, which is our core value at PES, and it supports the societal model we aim for.

Even before the Covid-19 pandemic, we witnessed how certain players escape or dodge the system which they largely benefit from: corporations which avoid or evade taxes, as tax scandals have revealed; tax havens, which also enable these activities; large polluters such as airlines, who do not pay any tax on kerosene; and many more.

Public awareness was getting higher and higher. With the outbreak of the pandemic, we realised just how important these welfare systems are: healthcare systems were essential to combatting the pandemic, and their role in vaccination campaigns is still central; education had to adapt to this drastically different reality; social benefits helped thousands who could not go to work due to the restrictions. The toll the pandemic has taken on our economies is immense. Thanks to Socialist and Social Democrats' quick reaction, we avoided the mistakes made during the last financial crisis, and people's wellbeing became the priority. People have been able to rely on governments and on the European Union's joint efforts to protect their needs and their social rights.

The economic recovery is now underway thanks to our efforts to secure an EU Recovery Fund, but the gap left in our national and European budgets is still noticeable, and we need to keep funding the essential activities mentioned above while, in parallel, we repay the debt left by the pandemic. This is why, at PES, in 2020 we launched the debate in our Financial and Economic Network on how taxation systems can be reformed. The discussions could not be timelier, and we greatly appreciate the invaluable contributions made to this publication by member parties and organisations, as well as NGOs and civil society organisations. After several meetings in 2020 and 2021, we have witnessed how the pandemic has changed our societies, and how important it is for us to adapt to these changes – including through taxation.

At the same time, we must not forget the environmental transition and the digital transformation, which are the cornerstones of the EU Green Deal, and which also require the means necessary so that this dual transformation does not forget about any individual in our societies. With the proposals we put forward, we can create an updated taxation system which can work for the many.

PES Action Day on a global Financial Transaction Tax,
24 April, 2010

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1 Let's talk about taxes

Taxation is the answer to a fundamental question: how to obtain resources to use in favour of the common good? What and who gets taxed, and the purpose of these funds, are at the core of our political **fights. For Social Democrats, economic growth is not a mere end in itself; it must also be a means to serve the needs of people, families and society.** Therefore, taxes should be used for redistribution of wealth, promoting equality of opportunity and a sustainable economy. For instance, a well-functioning welfare state, the importance of which has become even clearer during the Covid-19 pandemic, implies that tax revenue is channelled to strengthen social safety nets, and to provide quality public services, particularly to improve healthcare access, to invest more in the education and qualifications of the youth and all citizens. Public hospitals, schools and transports are fundamental to ensure that the basic needs of the most disadvantaged are covered and that everyone has an opportunity of upwards social mobility – something which the markets have failed to provide.

During the economic and financial crisis, those same public services were sacrificed. Austerity measures were implemented by conservative/liberal majorities, under the premise that tight budgetary restrictions would set the stage for stability and a swift recovery. That strategy proved to backfire against our economic recovery and disrupted the lives of working-class people, small business owners and entire families, who, together, ended up paying for the previous crisis. These austerity measures affected 75% of the world's population in the ten years after the financial crisis, and included cuts to pensions and wages of critical staff – teachers and healthcare professionals – as well as to benefits and subsidies. Now, 64% of citizens from middle- and high-earning countries support the idea that something must be done to create a fairer way of distributing wealth. For example, 71% of Europeans are in favour of a universal basic income (UBI). There are also signs of support – 70% of people in the UK – for wage caps for the wealthiest, for example at either £100,000, £200,000 or £300,000 annually.[1]

This time, the recovery from the economic crisis caused by the Covid-19 pandemic must be different. As underlined by Oxfam[2], billionaires have already returned to their pre-pandemic levels of wealth in under ten months, whereas it could take an entire decade for the poorest people to do so. The crisis must serve as an opportunity to finally create economies with equality as a guiding principle. Governments have the power to reduce the inequality gap through strong and coordinated policy action, which could lead to reducing poverty to at least pre-pandemic levels by 2024, according to the World Bank[3]. Without government action, the number of people worldwide living under the poverty threshold could be 501 million higher than before the pandemic. Furthermore, the current economic model, which is based on highly unequal growth, is at the same time responsible for the acceleration of the climate crisis.

Now, following decisive action by the Socialist and Social Democrat governments and national parties, the European Union is setting the stage for an alternative, solidarity-driven, approach.

Our governments took decisive action from the start of the pandemic, with many fiscal measures aimed at protecting businesses and people, including: In Sweden, the Social Democratic Party deferred tax payments on salaries, contributions from employers, and VAT, which provided liquidity to companies and people.[4] Spain's government, led by PSOE, reinforced the budgets at regional level, reduced VAT for medical supplies in hospitals and for the coverage of healthcare for most vulnerable people, and made further investments into research.[5] In Portugal, the Socialist Party in government provided tax relief measures to mitigate the worst effects of the pandemic, together with a stimulus package of 9.2 billion EUR.[6]

The EU reacted adequately to the Covid-19 crisis by suspending the Excessive Debt Procedure of the Stability and Growth Pact in 2020 and 2021. This gave leverage to Member States to answer the social and health emergencies and save their economy. While some are already calling for a strict return to budgetary discipline, this document is also a contribution to find new ways to support public finance. On another note, Next Generation EU is the first step towards a common effort to relaunch the economy, but we must not overlook the importance of discussing how we intend to support it. Taxation is still a matter of national competence – yet, at the same time, a European coordinated approach on taxation is proving increasingly relevant. Equality, sustainability and redistribution must be at the core of a truly fair tax system at national and European level. A sustainable welfare state needs a framework that allows it to perform efficiently without shifting the burden towards working people and the middle class, not an environment that pits Member States against each other and breeds inequality. For us, the path is clear: this is a common challenge and, while in full respect of subsidiarity, more tax coordination and cooperation between our countries is crucial for promoting wellbeing and prosperity.

Unfortunately, **we are still witnessing a race to the bottom, which prevents more ambition and progress.** When a given country seeks to make the big polluters pay their fair share, or if one intends to end the free riding of large multinational corporations, then these may simply move abroad and flee their obligations. This represents a severe downwards pressure on government action. Having a single market requires tax mechanisms that prevent harmful competition. Aggressive tax competition cannot be used as fiscal stimulus. In addition, the recent scandals of tax evasion and avoidance have exposed the global dimension of harmful tax practices performed by several multinational corporations. Shifting profits to tax havens is a mere international accountancy scheme, undermining national tax policies and draining tax revenues in the countries where value is being created. Capital flight can also be fought if we stop supporting the centres which enable certain countries to become tax havens. Offshore zones should cease to exist. **We cannot accept tax evasion and avoidance as a strategy; everyone must contribute their fair share.** This is not a challenge for individual countries, it must be tackled together. In the current political juncture, including the need to complete the Economic and Monetary Union, particularly by strengthening it with a fully-fledged fiscal capacity, and the additional urgency to agree on paying our joint recovery efforts, discussing taxation at the EU level has become paramount. **The average citizen must not be left behind to foot the bill; instead, we need a progressive, modern and just tax system.**

Countries must find new and joint ways to ensure shared prosperity. Cooperation and coordination are fundamental to enact a tax shift, relieving the burden on working people and small business owners, while asking for the big polluters, the financial sector and large multinational corporations to pay their fair share.
With that in mind, the PES proposes a tax agenda for a fair Europe, grounded on the fundamental principles of social democracy such as social justice, gender equality and sustainability as overarching objectives.
We must develop a tax system that encourages equality of opportunity, wealth redistribution, fair competition by safeguarding a levelled playing field, transparency and accountability, as well as a swift transition to climate-friendly, more sustainable alternatives. **We need tax justice now.**

2 Fight against tax evasion, avoidance and fraud

Over the past decades, particularly since the advent of globalisation, the efforts of national governments to secure tax revenue have been undermined by a new trend. Increasingly complex tax schemes are able to take advantage of legal loopholes and surpass the structures designed to detect and punish non-compliance. **National tax policies are being compromised by illegal practices and by immoral avoidance efforts which cost billions in tax revenue.** Recent scandals, such as Luxleaks, the Panama Papers, the Paradise Papers, and the Pandora Papers shine a light on the tax planning industry, dedicated to shifting profits and wealth away from where value is being created.[7]

KEY ASPECTS

1 **Tax evasion and avoidance are undermining social policies, public services and debt sustainability. Fighting tax evasion and other schemes is a pre-condition for social justice.**

2 **Europe needs a common financial registry and a Financial Intelligence Unit to better tackle illicit financial flows by improving monitoring, accountability and law enforcement.**

3 **The European Union should increase the standards for non-cooperative jurisdictions, but also for enabling industries. Penalties for intermediaries making profits by helping large corporations to avoid taxes.**

4 **Develop a common EU framework for tax gap assessment in order to pinpoint the loss of tax revenue and design public policies accordingly.**

The World Inequality Study 2018 suggests that more than **10% of global GDP is hidden in offshore jurisdictions[8].** A study[9] contracted by the European Commission corroborates it: the share of wealth placed in offshore jurisdictions by residents of EU Member States reached 9.7% of the EU28's GDP in 2016. For many decades, we heard neoliberals and conservatives criticising the welfare state for fear that too much solidarity would lead to a group of free riders. Yet, the same right-wing coalition, the ones that argue for tax cuts for the rich and cuts in wages for the poor, have turned a blind eye when confronted with the free riding of the top 1%. Tax evasion, avoidance and other harmful schemes have been used to avoid contributing to national budgets, thus undermining social policies, public services, debt sustainability and even democratic principles.

Considering that many of these schemes are questionable from a legal standpoint, those who provide wealth management, tax planning and similar services have an incentive to focus on a restricted set of clients that can provide the greatest upside, that is, the ultra-wealthy. When wealth is concentrated, they can focus on fewer clients and reduce their exposure to authorities – and the risks of being caught. Economists and tax experts, Alstadsæter, Johannesen and Zucman have shown that **offshore evasion is linked to accumulated wealth[10] and that about half of hidden wealth belongs to the top 0.01%[11].**

Since the probability of using offshore jurisdictions to avoid taxation is gravely concentrated at the top, it means that there is an inequality feedback loop: the more wealth one has also translates into more opportunities to evade (and avoid) taxation, thus increasing the disparities between poor and rich. **Tax evasion and avoidance is an implicit tax shift towards the average citizen – and we cannot accept it.**

Multinational corporations and the wealthiest individuals enjoy the services provided by the State, but have booked their profits and accumulated wealth in offshore jurisdictions, leaving working people and the middle class to foot the bill. This system, revealed by scandals such as Luxleaks or Openlux[12], is providing positive outcomes for the wealthiest and the tax planning industry, but negatively impacting the rest of the population. Most recently, following one of largest tax scandals of all times, the Pandora Papers[13], our EU Commissioner for Economy, Paolo Gentiloni, stated that public pressure would increase on governments and the EU to take action against these schemes.[14] Indeed, in the aftermath of previous scandals, governments have acted accordingly and retrieved funds which should have gone into the public coffers. After the Panama Papers were published, governments around the world were able to recover **over one billion euros.** For example, Germany recovered over 160 million euros, and France over 120 million.[15] Belgium retrieved 16 million euros[16] after the Panama Papers were published.

Fighting tax evasion and other avoidance schemes is, therefore, a pre-condition for tax and social justice.

Preventing abuses by wealthy individuals, companies, and tax planning providers requires tearing down the obstacles created by financial secrecy and opacity. We take notice of suggestions for establishing **a common EU financial registry**[18], designed to monitor and supervise the tracking of financial flows and assets, wealth and their owners, thus contributing for more accountability and better law enforcement. Yet, tackling illicit financial flows requires a broader scope of action. In that sense, measures taken at the EU level should be the starting point for discussions at the international level. We should progressively expand into a global asset registry[19] in order to ensure a level playing field and that all jurisdictions are kept accountable. In addition, we are in favour of creating a **European Financial Intelligence Unit**[20]**,** as proposed in the recent action plan by the European Commission[21], to support, coordinate and improve the operational effectiveness of national authorities, particularly in **tackling tax avoidance, tax evasion and money laundering.** While we acknowledge the differences between the three, which are illustrated in the image below, they all undermine our tax system and entail negative consequences for society as a whole, which is why it is imperative to tackle them all.

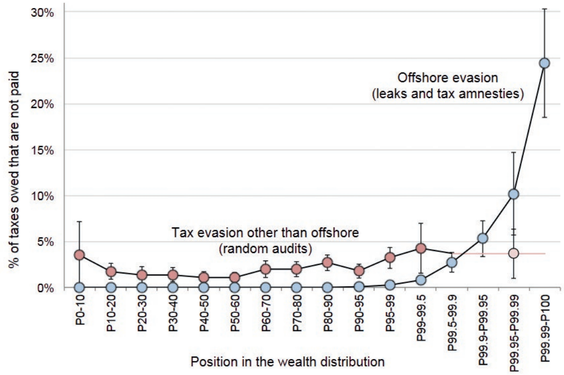


Chart 1. Taxes evaded as % of taxes owned, by wealth group (%), EU28. Source: Alstadsæter, Annette; Johannesen, Niels & Zucman, Gabriel[17]

According to the S&D Group in the European Parliament in 2019, every year, the EU is losing €825,000,000,000 to tax evasion, which translates into €1,600 per EU citizen, as well as €160 to €190 billion to tax avoidance.[22] As Paul Magnette, leader of PS Belgium explains, research[23] says that the sustainable transition would require approximately one thousand billion euros, which is what we lose yearly to tax fraud and evasion. These amounts should be channelled into public and climate spending, and would facilitate other PES proposals, such as lowering the burden of labour taxes. We also encourage the European Union to build up on the list of non-cooperative tax jurisdictions[24], launched in 2017, a tool that flags countries encouraging abusive tax practices, then monitoring their implementation of new and more adequate regulation.


SAY NO
TO
GREED

Paul Magnette, leader of PS Belgium

The so-called **blacklist and greylist** are used by the Member States to put pressure on other countries to increase their standards, thus reducing external risks of tax abuse and unfair tax competition. Countries responsible for creating a landscape favourable towards tax evasion and avoidance must be held accountable.

We welcome the ambition in the most recent tax package[25], an initiative by the Socialist European Commissioner, Paolo Gentiloni. The European Union must aim for the broadest scope, implement stricter criteria and more transparency. **The list of non-cooperative tax jurisdictions must not exempt any country from scrutiny.** According to the European Parliament's FISC Subcommittee report on reforming the EU list of tax havens[26], the five jurisdictions which are most responsible for countries' tax losses are the Cayman Islands, the UK, the Netherlands, Luxembourg and the US. This is why the decision to remove the Cayman Islands from the list of non-cooperative jurisdictions sends the wrong signal, as it puts into question the reliability of the list itself. While the creation of this list in 2017 has proven to have had positive results, the Code of Conduct Group (CoC), in charge of this list, urgently needs to be reformed to become more transparent and fairer. The criteria used to assess whether a jurisdiction is cooperative should also be strengthened, made public, and also applied to EU Member States, which are currently not scrutinised. This creates double standards between EU and third countries.

In case any given jurisdiction decides to refrain from adhering to the improved ruleset, the European Union should be prepared to act accordingly. For that matter, the previously mentioned list for non-cooperative jurisdictions should be enhanced with bold counter-measures[27].

Another issue worth addressing is the grey list of non-cooperative jurisdictions that includes countries which do not comply with the CoC's criteria, but which have made a commitment to do so in the future. However, there is no real incentive for these countries to make changes to their tax system. It is therefore questionable whether this soft power approach can promote changes in tax jurisdictions and whether it should exist at all. A country either complies or does not – there should be no middle ground.

Addressing the tax evasion and avoidance frenzy also requires action towards enabling industries. Among these are all the ones providing services that allow large corporations and the wealthiest individuals to escape their tax obligations, thus they are directly implicated in the underfunding of public services as well. Companies, financial institutes and **intermediaries who have facilitated illegal or harmful tax arrangements must face penalties,** such as exclusion from EU public procurement, EU investment programmes and EU funds. In this sense, we must also ensure that people who expose dirty tax arrangements enjoy protection from intimidation and threats. Proper **whistleblower protection,** such as safe reporting channels and extended safeguards against retaliation, including colleagues and relatives, creates an additional pressure point for compliance with legal and ethical standards. Whistleblowers have played a key role in revealing scandals of tax evasion and money laundering and their contribution can be decisive to detect and prevent breaches of EU law.

Lastly, the European Commission should develop a **common EU framework for tax gap assessments[28].** These assessments would shed a light on the differential between the amount of expected tax revenue and the amount of taxes collected.

This information is useful to pinpoint the loss of tax revenue and, therefore, build up an adequate strategy to close the tax gap. Currently, **the European Commission publishes a VAT gap assessment, which revealed a loss of EUR 140 billion in 2018[29].** Yet, a broader scope would allow Member States to better understand the dynamics and dimension of lost tax revenue and how to efficiently and accurately address the issue. A common methodology should include VAT, income taxes, social security contributions and corporate taxes. The national tax gap assessments would not only raise public awareness towards tax justice, thus mobilising people and resources to it, but could also provide an empirical basis for the European Semester to develop recommendations that take into account the tax gap and seek to reduce tax evasion and avoidance.

Our political family has been at the forefront of the battle against tax evasion and tax avoidance: **everyone must pay their fair share.**

Proposals:

- **Establish a common EU financial registry to monitor financial flows and assets.**
- **Create a European Financial Intelligence Unit to support, coordinate and improve the operational effectiveness of national authorities.**
- **Expand the list of non-cooperative jurisdictions.**
- **Impose penalties on “enabling industries” of tax evasion and other schemes.**
- **Strengthen the assessment criteria to include countries in the list of non-cooperative jurisdictions, revise the rules of the Code of Conduct Group to improve tax transparency.**
- **Improve whistleblower protection.**
- **Introduce tax gap assessments that calculate missing revenues in each country.**

3 PEOPLE: FIXING INEQUALITY

For the past 40 years, despite positive macroeconomic trends, wealth has become increasingly concentrated at the top while many at the bottom, including within developed countries and modern economies, have not enjoyed similar benefits. At the global level, according to the World Inequality Report, since 1980, the top 1% richest individuals in the world have captured twice as much growth as the bottom 50%. The debate on taxation must aim at promoting our progressive priorities in society. Relaunching the European economy is an opportunity to recognize and overcome the shortcomings of our existing economic model, particularly its inability to bring prosperity for everyone.

As Socialists and Democrats, we also acknowledge that **tax policy is not gender equal.** In particular, during the 2008 crisis, women were hit hardest by austerity measures[30]. The persisting gender differences in employment rates and patterns and gender gaps in unpaid care work, employment rates, income, old age security, poverty and wealth are all closely linked to the allocative and distributional outcome of tax regulations. PES Women has developed these issues further in their publication 'A Feminist Economy for Europe – towards a progressive economic system that works for women'.

KEY ASPECTS

1 **Progressive taxation, which follows the taxpayer's ability to pay, is the basis for a fair society that guarantees equality of opportunity. The European Semester should include recommendations that promote progressive tax systems.**

2 **Working people must not bear a higher burden than those who simply enjoy capital returns. Capital gains should be included in personal income tax brackets.**

3 **Despite creating value, global capitalism has not been effective in distributing it. We support the creation of a tax on extreme wealth in order to reduce inequality**

4 **A one-time solidarity levy, tailored for the Covid-19 crisis, should be applied to fortunes in order to safeguard debt sustainability.**

5 **The gender perspective of taxation should be acknowledged and mainstreamed in the different proposals.**

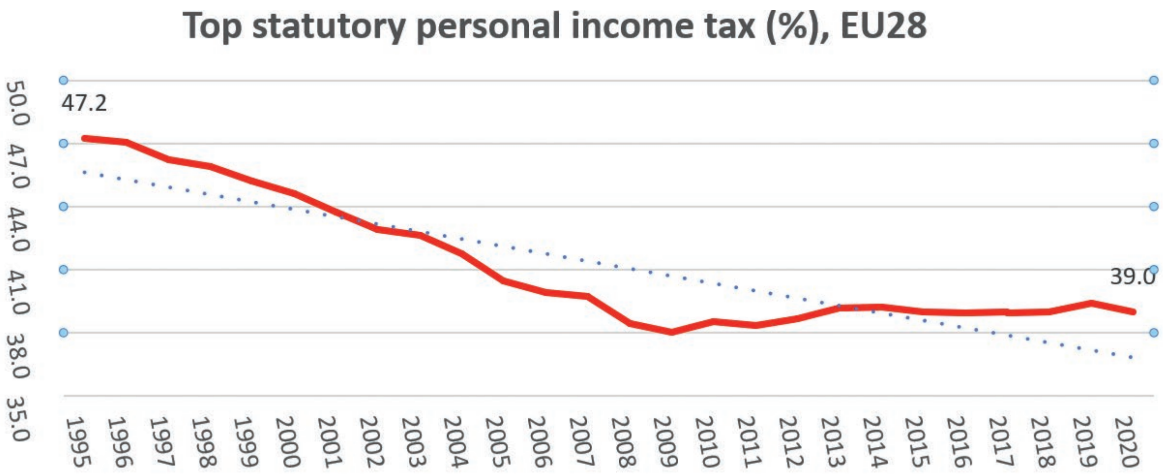


Chart 2: Top statutory personal income tax (%), EU28. Data source: European Commission[32]

A PROGRESSIVE TAXES

Prioritizing human wellbeing requires bold action. We need a recovery that delivers positive social change for all and fulfils our common needs: bridging socioeconomic inequalities, a just redistribution of wealth, a fair treatment of working people, protecting families and the most disadvantaged, ensuring that everyone gets a chance to thrive. Promoting gender neutral taxation policies must be included in our agenda: for example, joint tax provisions or household-based tax systems for personal income have negative effects, such as disincentivizing women as secondary earners from participating in the labour market. **We need to define an ambitious perspective for our contemporary challenges driven by the fundamental principles of our political family.** Inequality has been on an upwards trend, affecting how different income groups behave, how they interact and their opportunities for success, dignity and happiness. The Party of European Socialists has led the fight against inequality[31] and is committed to a Social Europe that promotes shared prosperity and leaves no one behind.

Given this outlook, we must begin by looking into the core of social democracy: progressive taxation. This means that the distribution of the **tax burden is shifted towards those who can afford to contribute more, thus easing the impact on lower income families.** The most common way to ensure a progressive tax system is by creating income brackets with a corresponding tax rate that increases alongside each taxpayer's income, thus reflecting their ability to pay.

However, the tax rates on top incomes have been on a downwards trajectory, reflecting a flat income tax tendency, which comes to the expense of promoting social equality and wealth redistribution.

Between 1981 and 2018, the average top income tax rate among OECD countries fell from 66% to 43%[33]. In the European Union (EU28), the average top statutory personal income tax, including surcharges, was reduced from 47.2% in 1995 to 39% in 2019[34]. This is even more worrisome when we take into account

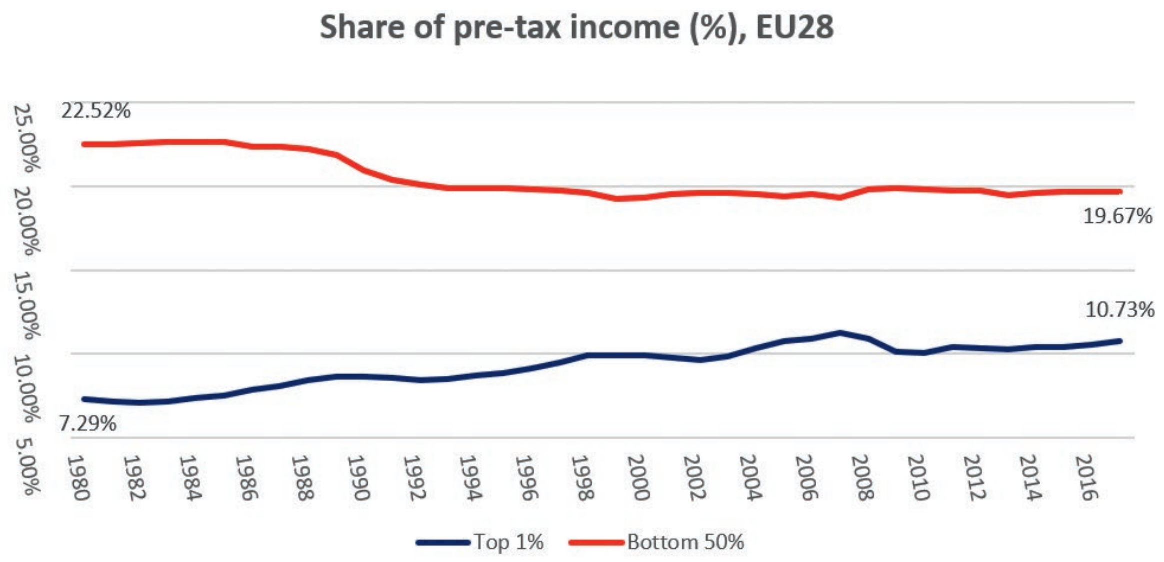


Chart 3: Share of pre-tax income (%), top 1% of the EU28 population. Data source: World Inequality Database

income distribution. During the past decades, more income has been flowing towards the highest earners in our society. Since 1980, the top 1% have increased their share of pre-tax income (EU28) from 7.29% to 10.73%[35]. Given that, prior to government efforts to redistribute income, the free market is gradually increasing the earnings of the richest members of society and widening the gap between them and those at the bottom of income distribution. During that period, the share of the bottom 50% decreased from 22.52% to 19.67%. **The highest earners have increased their pre-tax income and are also paying less tax, a double win for the super-rich.** Inequality is the consequence, but not an inevitable outcome – this is a matter of political choice and there is an alternative.

For Socialists and Social Democrats, tax policies should be employed as a redistribution tool: protect the disposable income of households in poverty or at risk of poverty, invest in quality public services for all, and relief the middle class from footing the bill left by the rich. Redistribution tools are even more important given that, since 1999, on average, **labour productivity has increased twice as fast as labour compensation[36].** This means workers are benefiting less and less from the output of the economy. We need a wage-led growth economy that leaves no one behind. The PES has been relentlessly fighting to improve remuneration standards across Europe. In November 2017, the proclamation of the European Pillar of Social Rights was a decisive step in the right direction. Our efforts to achieve better conditions for workers are now coming to fruition, particularly through Commissioner Nicolas Schmit's commitment to create a European framework for minimum wages. **The European Semester could be a decisive platform to promote social cohesion and convergence** in the European Union by including the progressivity of income taxation at the national level and of fair remuneration for workers into its scope of action and recommendations.

B REGRESSIVE TAXES

In contrast to progressive taxes, regressive taxes do not take into account a person's level of income or their ability to pay tax and therefore intrinsically expand inequalities. A clear example of a regressive tax is value-added tax (VAT). In fact, since 2010, VAT rates have experienced an increase, which has been combined with the decrease of taxes on wealthy individuals and corporations. A reverse situation, which PES stands for, could have avoided some of the measures based on austerity which have led to an increase of inequality in recent years.

Since 2016, the European Commission is implementing its Action Plan on VAT – Towards a single EU VAT area, aiming at simplifying and harmonising VAT at EU-level. In 2020, this included adopting new measures to fight VAT fraud using payment data, and new simplification rules to help reduce VAT compliance cost for small businesses. The VAT Directive has also been revised, and now includes additional requirements for payment service providers. Amendments have also been made in connection to e-commerce in order to fight VAT fraud in this online sector[37]. Furthermore, the EU's budget is financed with a proportion of VAT collected in Member States, but the system has become opaque and unfair. A revision is needed to reform this system and create new own resources, which will be essential to fund the EU recovery package and next MFF.

In this regard, the PES also supports revising VAT for period products: they are not luxury goods. They are essential products for a significant part of our population. This would be a first step in creating a more gender equal tax system.

Another proposal to reduce inequality could be to push for a reimbursement of VAT for households under the poverty threshold, for example, those who earn under €5,000 a year. For example, taxes on health, dentists, culture, or digital items could be returned to them. These people find themselves in the "no tax area", given that they have very little but still pay a lot in VAT. Fixing this would guarantee more social equality.

There is also a major problem concerning VAT: missing trader intra-community (MTIC) fraud. This complex type of fraud entails abusing the rules for cross-border VAT transactions, and accounts for €50 to €70 billion of losses due to tax dodging every year. This is the most common form of VAT fraud and includes traditional fraud schemes (sales of mobile phones or raw materials), but also intangible markets (the energy or environmental sectors).[38] This practice is robbing EU citizens from billions of euros which should be used to fund the welfare system. We must put an end to tax dodging in all its forms.

Street art depicting "The Wolf of Wall Street", Paramount Pictures, 2013

C A FAIR TAX ON CAPITAL GAINS

Inequality is also affected by how we split the tax burden between wages and capital income. French economist Thomas Piketty demonstrated that, in the long term, when the rate of return on capital is greater than the rate of economic growth, the result is concentration of wealth[39]. Furthermore, the recent trend of over-taxing labour and consumption in relation to the under-taxation of corporate profits and capital has in practice meant an increased tax burden on women over men, due to the unequal distribution of wealth between genders. Yet, in too many countries, tax rates are lower for corporate dividends and capital gains than for wages. Investors are enjoying more benefits when they gamble on financial markets than the working class gets from daily jobs. It is inadmissible that returns from such investments are more rewarding than the hours of dedication to work. The tax burden should be shifted towards corporate dividends and capital gains, particularly from the transaction of financial assets, intellectual property and real estate. These forms of income are disproportionally concentrated among the wealthiest citizens, who can afford to contribute more. Having **a higher tax rate on wages than on capital gains and corporate dividends perpetuates and aggravates inequalities.**

Currently, many countries in the European Union still impose a different tax rate for gains from stock trading or real estate sales than on income from labour. This approach provides for an implicit tax break to the wealthiest citizens, who own much more assets, particularly financial securities. In such cases, an investor who gains one million from capital investments is subject to a lower tax rate than he would if such income was included in the respective bracket for personal income tax. President Donald Trump's Tax Cuts and Jobs Act is the perfect example of how lower taxes on capital income are benefiting the wealthiest. Despite being advertised as a relief for families, workers and small business owners, the benefits of Trump's policy were directed to the top of the income bracket. Only 7% of the US citizens reported taxable capital gains; plus, nearly two-thirds belonged to people with a total annual income of $1 million or more[40]. There is no way to avoid it: **lowering capital gains taxes is not a policy which helps the average citizen or society as a whole.**

The neoliberal strategy of providing tax breaks for the highest earners is driven by blind faith in trickle-down economics. Reducing taxes for the rich is not leading to shared prosperity; quite the opposite[41]. It led to budget cuts in public services and to a shift in the tax towards the middle class, thus increasing inequality. This shows that inequality is not automatic nor inevitable. It is a consequence of the aggregate political choices that determine the guiding principles of a community. For Social Democrats it is clear: we must work together towards a fairer tax system that respects the hard work of common citizens. There is no sensible justification to implement a lower tax rate on capital gains. The highest earners and investors do not need more privileges. By designing a common EU framework for taxing capital gains, we can ensure that capital flight is not a risk and that all countries can promote tax justice.

Denmark's example on taxation of capital gains

We support taxing capital gains in line with taxing labour income. An interesting alternative to make the taxation of capital gains more progressive would be a combined system, such as the one implemented in Denmark. Denmark taxes personal income from capital gains at 27% below DKK 50,000 (circa €6,710), and at 42% when they exceed this threshold. Making the taxation of capital gains more progressive is the right position, but the regular taxation of capital gains (alongside labour income) would be a heavy administrative burden for financial authorities and taxpayers alike. What is more, it would mean a tax increase on saving deposits for most middle-class families in times of low interest rates. The trickling-down effect must be limited in order to protect middle-class households. Establishing a classic source and a higher tax for higher capital gains, would limit the administrative burden. In the US, the Democrats are also discussing a similar system.

D TAXING EXTREME WEALTH ACCUMULATION

We are living in societies with an unsustainable concentration of income and wealth in the top 1%. The growing trend of inequality has spurred interest about **how capitalist economies tend to widen the gap between rich and poor.** For instance, from 1980 to 2016, the top 1% of the global income distribution captured about 27% of total income growth[42]. This contrasts with the low growth experienced by the bottom 90 percent in the United States and Western Europe (and other developed countries), as pointed out by economists Christoph Lakner and Branko Milanović[43]. Despite the encouraging gains in emerging economies, lower and middle-income households of developed countries were left behind. Instead of a fair level playing field, **the free market failed to ensure that everyone was benefitting from economic growth.** Deregulated markets are not the solution. Market fundamentalism has been counterproductive by exclusively boosting the chances of the wealthiest and trumping equality of opportunity. This has to change: extreme concentration of wealth is now an obstacle to social mobility and to meritocracy.

The current pandemic has made things even worse: inequality has increased, and the gap between the richest and the poorest has become even wider than before in almost every country in the world at the same time – a situation which is unprecedented. However, in spite of the pandemic, the rich have become richer: the wealth accumulated by the world's billionaires increased by $3.9 trillion from the 18th of March 2020 until the end of that year, leading their total wealth to be higher than the amount spend on covering the costs of the pandemic by all G20 countries combined. Going even further, the 10 richest billionaires' wealth has risen by $540 billion in the same timeframe.[44]

Worldwide, and in economic terms, the most affected people are women and ethnic minorities, partially due to the fact that they are overrepresented in the sectors of the economy which have felt the biggest impact of the pandemic, such as the tourism sector, accommodation or food services, as well as the informal economy.

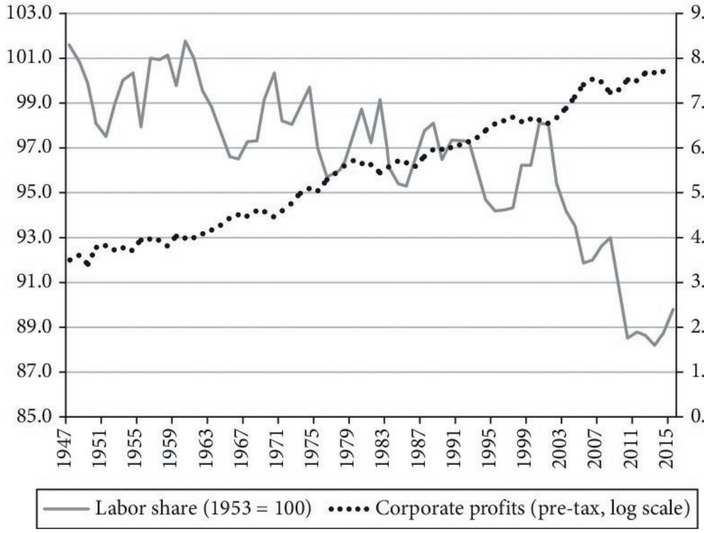


Chart 4 Cioffi, John W. (2018) Finance Capitalism, the Financialized Corporation, and Countervailing Power (Oxford Handbook of the Corporation)

PES has long supported measures to decrease inequality in our economies. This is particularly necessary when we consider the data which shows that, since the 1970s, as large companies have increased their payments to shareholders increasingly higher, they have simultaneously decreased wages paid to their employees.

In fact, according to Oxfam[45], in G7 countries, between the years 2011 and 2017, the growth of average wages did not even reach 3%, as opposed to the dividends paid to already wealthy stakeholders, which increased by 31%. In this context, taxation can be used to counterpressure this trend. PES also brings forward other proposals to decrease inequality, for example, by establishing pay ratios between the highest and lowest earners in companies (PES Wellbeing Publication, 2020[46]) and fighting the gender pay gap (PES Women Publication[47]).

Spain provides us with a positive example of how this works with an employee-owned cooperative, where managers cannot have earnings which exceed the lowest salary multiplied by 6. Oxfam also puts forward an idea of a wage cap which could raise the annual average wage of low-income workers by more than £3,500, for instance, in the UK.

Voices from the World Economic Forum and the IMF are sharing our political family's message and also call for progressive taxation and wealth taxes in light of this devastating outlook. Revenue from a wealth tax on excess corporate profits has been estimated by Oxfam at over $100bn, had it existed in 2020, which could potentially be used to cover unemployment protection for all workers[48]. Some leading countries in this regard are Argentina and Austria, who have adopted temporary wealth taxes. In Argentina, 8 out of 10 SMEs support a wealth tax.

To promote equality of opportunity and social cohesion, we must put forward an ambitious tax agenda focused on redistribution of the upsides from growth. In this respect, we welcome the discussion about[49] **wealth taxes[50],** annual levies which seek to reduce inequality by mobilising extreme private surpluses to fund public goods. A net wealth tax[51] includes real estate, which many countries already tax, but also financial assets and high-value goods (yachts, art, etc.), thus tailoring the scope to fit the asset portfolios

Representative Alexandria Ocasio-Cortez in her "Tax the Rich" dress at the Met Gala, September 2021

of the wealthiest citizens. In addition, a net wealth tax also ulfils the role of inheritance taxes by pre-emptively collecting a portion of the accumulated wealth that would later be transferred. Furthermore, annual net wealth taxes have a high threshold, which means their scope is limited to individuals with personal fortunes above many millions. Property and succession taxes are relevant options to secure revenue, but could be improved by a broader framework. A yearly contribution from millionaires would support our efforts towards shifting the tax burden away from labour income, thus providing a relief for the average family. In that sense, given that wealth accumulation at the top has been a major trend during the past decades, and that we exempt working people and middle-class families, **this tax would be a trademark progressive policy and an effective tool to curb extreme inequality.**

Austria provides a successful example of this proposal with its interim wealth tax for the superrich, starting at 2% for people with a net worth over €10 million, and reaching 4% for amounts over €1 billion. Austrians have welcomed this initiative, which contributes towards narrowing the wealth gap. This is a positive example, but it is not a permanent measure, which is why it is compatible with longstanding demands for a millionaire tax. According to FEPS, this could provide significant real revenues if it is created as a progressive tax.

Explainer: The net wealth tax as a modern alternative

- → Includes all assets, thus improving the scope beyond immovables by including other relevant assets, particularly financial securities and luxury items.
- → Thresholds based on household income and wealth, thus relieving low and middle-income households.
- → Levied yearly, which makes the tax system more progressive.
- → Risk of capital flight is dramatically reduced if a proper EU framework is introduced.

Property taxes

Currently, many countries apply levies on gains from real estate transactions and annual taxes on property ownership. While the first may be included in the scope of taxes on capital gains, the latter is a de facto tax on wealth – in this case, a wealth tax targeted to a particular immovable asset. Given that real estate properties are based on a specific location, the implementation of said tax policy is effective and secures more funding for public services and other state initiatives.

However, they still miss a significant portion of the assets owned by the wealthiest, such as financial securities and luxury items (yachts, art, jewellery, etc.).

Succession taxes

A succession tax is imposed on those who inherit assets from the estate of a deceased person. It represents a one-off tax on wealth inherited. The scope and tax rate depends on the country implementing it. The underlying rationale of succession taxes is to ensure that outcomes are connected to one's contribution and work, rather than their inheritance of wealth and assets. It also ensures an additional revenue source to public initiatives.

However, succession taxes typically include several and significant exemptions that make avoidance frequent.

Proposal: Solidarity levy

The response to the Covid-19 pandemic has created a significant imbalance in public finances. Revenues decreased dramatically due to the suspension of economic activity and governments were called into action to improve health systems and provide support for workers and SMEs. We need exceptional tax measures to ensure that countries have fiscal room to relaunch the economy without reducing support to the most disadvantaged citizens, slashing funding to public services or rolling back social and environmental standards.

Member States should consider the option of a capital levy, an exceptional, one-off tax on net wealth to safeguard debt sustainability, which was implemented in post-war situations and considered in the aftermath of the global financial crisis[52]. According to the IMF's fiscal monitor[53], if the implementation of such tax "before avoidance is possible and there is a belief that it will never be repeated, [it] does not distort behaviour (and may be seen by some as fair)". The "Solidarity Levy" should be exclusive to individuals with massive accumulated net wealth to ensure a fairer distribution of efforts among the society.

Right-wing critics have pointed out that taxing the wealthiest citizens can lead to an erosion of the tax base given that assets, particularly intangibles and financial products, are moved to other jurisdictions to avoid taxation. They have given up on tax fairness and portray business as usual as an unchangeable landscape. Instead, we must put an end to a regime that continues to fuel inequality and wealth accumulation at the top. As progressives, we are fighting for an economic model that brings prosperity to all – and coordination at the EU level has a fundamental role. By implementing an **EU-wide wealth tax[54] framework, all Member States will be able to collect their own taxes on extreme wealth accumulation without the risk of capital flight to other countries.** While this could help reduce the national contributions to the EU budget and support the European response to Covid-19[55], even if there is no mutualisation of revenue, creating such a framework for cooperation would represent a significant step towards curbing inequality and ensuring that our societies grow in a more sustainable, inclusive and fair way.

National measures: A reality check for the French government

In 2017, just a couple of months after the Presidential election, the new government promptly proposed a sweetheart deal for the wealthiest. Macron's government opted for a tax reform that scraped the solidarity tax on wealth (ISF), replacing it with a more limited tax, which does not consider all assets of the taxpayer, namely financial products. In addition, the French government introduced a flat tax for capital gains, interest and dividends, which were previously subject to the progressive personal income tax rate. These policies provided a significant tax relief for the wealthiest citizens and were portrayed as an attempt to attract investors, thus paving the ground for growth and jobs.

This approach failed to produce the intended boost for the economy[56]; instead it fuelled social unrest and the 'yellow vests' protests[57]. Coddling the wealthy and gambling on a neoliberal strategy of tax cuts has led to more social disparities between rich and poor. We need more equality, not less[58].

WE NEED A NEW TAX AGENDA THAT WORKS FOR ALL, NOT JUST THE WEALTHY.

Proposals:

- Promote progressivity of personal income taxes. Enhance the social dimension of the European Semester with progressive taxation.

- Tax capital gains according to progressive personal income brackets. A common EU framework should be designed to prevent capital flight.

- Targeted wealth taxes, taxes on real estate, and inheritance taxes can generate additional revenues.

- An optimised option is to develop a coordinated effort to tax net wealth on extreme fortunes, including financial assets.

- Introduce a one-time solidarity levy in order to support Covid-19 efforts.

4 PLANET: GOING SUSTAINABLE

Driven strictly by short-term profits, the current model of deregulated capitalism not only takes a toll on social cohesion, but also incentivizes an extractive relationship with Planet Earth. Corporations perceive environmental protection and climate targets as a burden that restricts their economic output, as if natural resources are a mere mean to fulfil the market's needs. With the liberalisation of trade and capital markets, many countries were pressured to reduce their social and environmental standards to gain competitive advantage. Environmental degradation is a symptom of the modern economy's design and priorities. The current extractive growth model, which accelerates the climate emergency, is also directly connected to wealth inequality: out of the total worldwide emissions between 1990 and 2015, the richest 15% of people accounted for 52%.

The top 1% emitted 15% of the entire emissions, which is the same amount as double the emissions from the poorest half of people during the same period. With all the increasing signs of resource depletion and proliferation of extreme climate events, **we must act decisively and immediately.**

In the context of the import of goods into the EU where there is little environmental taxation, a compensation duty should be considered, to avoid imported goods escaping the "polluter pays" principle and to ensure a level playing field. This could be achieved by collaborating with the WTO to try and harmonise the competitive position on environmental taxation at international level.

Given that taxing emissions and fossil fuels entails negative distributional effects, an idea put forward by AK Europa is to refund tax revenues with a compensation mechanism designed adequately. For example, it is suggested to provide a lump-sum transfer, known as Ecobonus and additional support measures, known as Ecobonus Plus, for people who are especially affected by this type of tax, such as those who need to commute or energy-poor households.[59]

Paolo Gentiloni, European Commissioner for Economic Affairs

KEY ASPECTS

1 The polluter-pays principle must be a driving force of tax systems. We need to put a price stamp on industrial waste and to create taxes on resource extraction, deforestation, land conversion and water usage.

2 Taxes can also shape consumer preferences. Introducing a levy on producers and consumers of single-use plastics or a lower VAT rate for sustainable products and services are effective measures that promote green alternatives.

3 It is paramount to review the Energy Taxation Directive to ensure the guidelines are in accordance to our climate targets. Above all, we must end fossil fuel subsidies, reduce the exemptions to aviation and maritime transports, and introduce a minimum level of tax for kerosene.

4 Europe's commitment to the Paris Agreement must not be a competitive disadvantage. The Carbon Border Adjustment Mechanism will create a level playing field based on upwards ecological convergence.

A PUTTING A PRICE STAMP ON WASTE

Our legacy as Socialists and Democrats is driven by a sustainable balance between the economy, people and the planet. Sustainability must be the lead underlying principle of public policy: it is our responsibility to put forward an agenda that protects the planet and its habitants, without compromising prosperity. This is more important than ever. Following the supply chain disruption from Covid-19, the European Union faces an opportunity to claim its strategic autonomy according to the principles of environmental sustainability and climate-neutrality. Today, our linear supply chains are still based on a limited and outdated growth model that disregards resource exhaustion, waste accumulation and pollution. **We need to change the paradigm and build a resource-efficient, less polluting, fully circular economy[60].**

The European Green Deal, championed by Socialist Executive Vice President Frans Timmermans, must be the guiding light of our recovery strategy. It provides an optimal framework for making this transition come to fruition. Nevertheless, **climate change is an existential crisis that requires all the instruments in the toolbox.** It is our duty to support the ongoing efforts and ensure that sustainable alternatives are more appealing. In this regard, we must not overlook the importance of taxation. Putting a price on negative externalities provides an instant and effective incentives. It fosters the optimisation of production and supply chains, channels investments towards green sectors and also contributes to tweaking consumption patterns by promoting sustainable alternatives. There is no way around it, Member States must adapt their tax systems to swiftly and effectively reflect the negative externalities linked to economic activity. According to the European Commission[61], in 2018, taxes on pollution and resources represented, on average, a mere 0.2% of the total tax revenue for the 28 EU Member States. **It is time to change.**

Our transition towards an economic governance based on resource-efficiency, clean energy and upwards ecological convergence is a priority. A report from 2017 warned us that half of all plastic that has ever existed was made in the past 13 years[62]. We need a paradigm shift. The Party of European Socialists, particularly Frans Timmermans, has been leading the fight for a levy on single-use plastics[63], which must be implemented soon in order to prevent further environmental damage. In that sense, we praise the introduction of said policy, as announced in the recent agreement from the European Council[64]. Starting in January 2021, there will be a **new own resource** composed of a share of revenues from national contributions based on the weight of non-recycled plastic packaging waste (€0.80 per kilogram). This is an important step to

promote sustainable alternatives, but also an important source of revenue for the EU budget. Other alternatives should be considered to nudge people in favour of environmentally friendly behaviours, for instance, by applying a lower VAT rate for products and services which are aligned with sustainable practices. If there are reduced rates on the sale of repaired, refurbished and reused goods then there is also an incentive for consumers to seek these options.

However, the real burden should not be put on consumers and the average citizen. On the one hand, we cannot expect that everyone conducts a full-length investigation when they go shopping. On the other hand, the share of waste generated by households remains a small portion of the total, just 8.3%. Creating an **industrial waste tax,** following the lead of many national and local authorities, is paramount to ensure that the private sector is more willing to recycle and reuse materials – but also to incentivise better waste management and, possibly, the creation of a secondary market for waste materials. This way, companies that do not follow sustainable resource management practices have to pay waste taxes, thus creating a competitive advantage for clean, green alternatives. Ashe total amount of waste generation in the EU has shown few signs of slowing down[65] – we must create the right incentives if we want to be more ambitious and to deliver on our commitment to a sustainable economy. For instance, the costs of extracting new resources should also reflect the environmental consequences[66]. We need a **tax on resource extraction** to make sure that companies are compelled to find sustainable alternatives. **Negative externalities must not be passed on to society, individuals and future generations; profits must not be decoupled from responsibility.**

Nevertheless, it is highly important that we highlight, once again, that the effectiveness of taxation requires coordination of national efforts at the European level. One should not be penalised for climate ambition and countries should not be incentivised to lower environmental standards to compete with their neighbours. **We need upwards convergence, not a race to the bottom.** We fully reject environmental dumping as a competitiveness strategy. The planet cannot be subordinated in favour of the 20th century's economy. Therefore, without compromising the scope of national competences, the EU must design a common environmental taxation framework that promotes better waste management and better resource-efficiency. We need more cooperation in this field, it is our common duty to safeguard the planet.

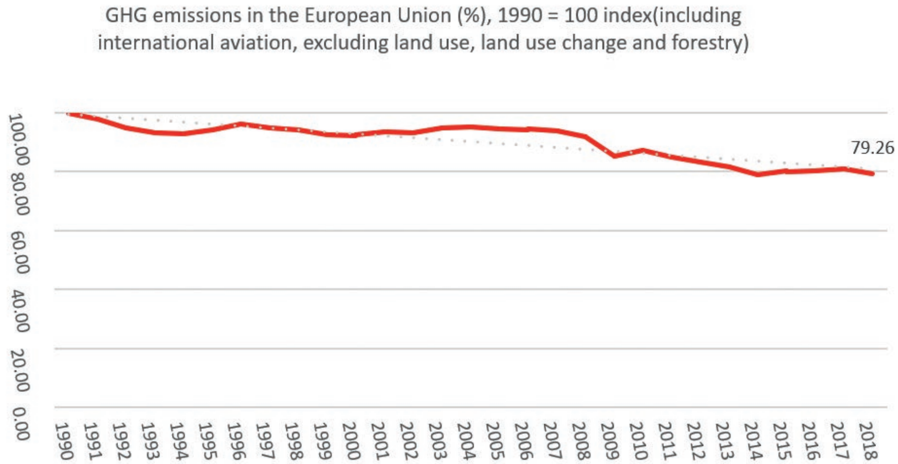


Chart 5: Greenhouse Gas emissions in the EU27 (%), 1990=100 index. Data source: European Environment Agency

B END OF THE FOSSIL FUEL ERA

Our political family has long argued for a fair, sustainable development model in alternative to deregulated market economics. After many years of political pressure, results are now tangible. The European Green Deal is our new growth strategy – one that seeks to shape our economic model according to our planet's needs. This policy shift is an opportunity for the European Union to lead the transition towards a climate-friendly economy. The European Union has set ambitious targets for reducing Greenhouse Gas (GHG) emissions under the European Climate Law: a 55% reduction until 2030 (compared to 1990) and full climate neutrality by 2050. Together, the 27 Member States have managed to reduce their emissions by 20.74% when compared to 1990. While this is a positive trend, we must increase our efforts to ensure that sustainability truly becomes the underlying principle of our socioeconomic model. It is paramount to fade-out fossil fuels and boost clean renewable energy sources. We need sustained and ambitious investments in our grids, infrastructures and transports in order to ensure that our economy is ready for this transition towards new and sustainable energy sources.

PES urges governments to phase out public subsidies to fossil fuel industries. Both commercial and multilateral development banks must be directed to progressively end their investments in fossil fuels and rapidly scale up investments in sustainable renewables, which are rapidly becoming the cheapest source of electricity in history. We should also aim to promote this at an international level.

Taxes can, once again, play a key role in achieving this goal. By conducting a thorough **review of the Energy Taxation Directive (ETD),** the European Union can make sure that today's tax framework reflects the Paris Agreement commitments, the principles of the European Green Deal and are fully adapted to our current needs. The ETD was adopted in 2003 and, after 17 years of innovation, new technologies, new knowledge on energy, and several changes to national tax policies and regulation, it is crucial to update it. We must review the ETD to ensure its relevance and coherence, but also its effectiveness and efficiency – that is, in accordance to our political priorities and, simultaneously, to the latest developments in the energy markets.

1 Firstly, the minimum tax rates on fuels should be closely tied to their GHG emissions – **the more you pollute, the more you pay[67].** In addition, new fuels for transportation, such as green hydrogen or sustainable biofuels, should be included and supported by the directive. Heavy industries are the biggest polluters. With the current carbon path, the energy tax remuneration and the free allocation of allowances all have to be reformed to meet climate goals.

2 Secondly, there are too many exemptions in the current directive. For instance, the aviation and maritime transport sectors are fully exempt from energy taxation, which not only represents significant losses in tax revenue[68], but also creates an unlevelled playing field, disincentivises modernisation and energy-efficiency. Polluting emissions have increased dramatically in the international aviation (140.58%) and international navigation (35.88%) sectors. Market demand must become more eco-conscious and ensure that climate externalities are taken into account. This exemption is not compatible with our ambition and commitment to climate targets and its removal should be considered. Following the removal of such exemptions, Member States should be encouraged to define a minimum level of taxation for kerosene, thus ensuring that there is a level playing field within the single market and that emissions from maritime and aviation are properly taxed. We should also consider the design of carbon taxes in order to make them progressive. PES could support: higher tax rates for luxury consumption: SUVs, frequent flyers, and so on. This revenue can, in turn, be directed at vulnerable communities, who suffer the extreme consequences of climate change more severely.

3 Thirdly, one of the key aspects going forward is to **end the subsidies to the fossil fuel industry.** In 2016, the 28 EU Member States provided more than EUR 55 billion in financial support for fossil fuels[69], both through direct budgetary transfers and tax concessions. The taxpayers do not deserve to have their money channeled towards industries whose performance is detrimental to our climate and environmental targets. Our efforts towards climate neutrality must not be undermined by the industries of the past.

Overall, it is important to note that, for the PES, **sustainability means protecting the planet as much as protecting the people.** Therefore, we must ensure that the transition towards new energy sources is not be detrimental to the livelihood of European citizens. The transition should also be implemented in a fair manner to ensure that increased carbon prices do not disproportionately affect middle- and lower-income households. Socialists and Democrats have led the efforts to include a **Just Transition dimension in the Green Deal[70],** thus ensuring that energy-intensive, fossil fuel-dependent regions are not left behind. We need to show solidarity. These regions and their citizens need our support. New funding should be channeled towards increasing capacities of renewable energy production, stimulating alternative sustainable businesses and jobs, or providing professional training for workers. The transition towards a post-carbon economy that meets the climate challenges must not come as a cost to workers and families. We must fight energy poverty and ensure that the most vulnerable and poorest households are carefully supported and have access to affordable energy. **This is a red movement with an ecological stamp on; that puts people and the planet at its core.** No one shall be left behind.

C BEYOND EUROPE

The European Union has a solid background in leadership on international climate and environmental diplomacy. The Green Deal is a reflection of our deep commitment to the Paris Agreement. **Europe will do its part.** Nevertheless, this is a global challenge that requires the mobilisation of all countries. If our international partners do not share the EU's ambition this can both undermine our efforts to tackle the climate crisis, and put European industries at a competitive disadvantage. This may create carbon leakage, that is, increasing the carbon-intensive imports from outside the single market, or transferring production from the EU to other countries with lower climate standards[71]. On the international level, it is of paramount importance to relaunch transatlantic relations with the new US administration, as diplomatic relations are crucial. In this regard, we support and encourage HR/VP Josep Borrell and EU Commissioner Paolo Gentiloni's work to repair this relationship.

For us, Socialists and Democrats, it is very straightforward: **Europe's compliance with the Paris Agreement is a must, and climate ambition must not be detrimental to our socioeconomic standards.**

With that in mind, the introduction of a **Carbon Border Adjustment Mechanism[72] (CBAM)** must be supported. We must ensure that Europe's competitiveness is not jeopardised by our climate ambition, but also foster the adoption of higher standards outside of the single market. With a CBAM, we would ensure that the price of imports accurately reflects their carbon footprint. Furthermore, the EU would be able to reform the Emissions Trading System (ETS), which still grants favourable treatment to energy-intensive industries that struggle to compete with imports from countries with lax climate standards. Instead of engaging in a race to the bottom on climate standards, we would be promoting an upwards convergence: now that companies outside from the single market are liable for a corrective mechanism, we would no longer need to provide tax concessions to polluting industries that operate in Europe[73].

The discussion on a CBAM gains additional importance considering our recovery plan to relaunch the European economy. In the aftermath of the Covid-19 crisis, it is clear that **Europe must safeguard its strategic autonomy** by investing, supporting and improving the industries within the single market. Now that our industrial policy is more focused on our independence, it is crucial to couple green conditionality for our companies, thus shifting more investment to sustainable alternatives, and a border mechanism that prevents an unlevelled playing field for them. This is an opportunity for the EU to demonstrate that there is a way for achieving economic prosperity, human wellbeing and ecological stability. The CBAM should be fully compliant with the WTO and the EU's trade agreements, and also push our partners to adopt an equally ambitious stance on climate action. The last decades were driven by trade liberalisation and free market fundamentalism; which have failed to address the existential crisis of climate change. Our effort can be the stepping stone for an **alternative globalisation, guided by social, economic, ecological and generational justice.**

The Party of European Socialists is committed to the climate targets set by the Paris Agreement and proposes **a green taxation plan for a sustainable economy.**

Proposals:

- Introduce a levy on industrial waste to promote a circular economy.

- Penalties on resource extraction to prevent disregard for its ecological impact

- Update the Energy Directive to meet the standards of today, particularly by ending the exemptions of aviation and maritime industries. Include a minimum level of tax for kerosene.

- Stop fossil fuel subsidies – which amounted to over $320 billion in 2019 worldwide – including tax breaks for fossil companies.

- Safeguard the competitiveness of Europe's industries by creating a carbon border adjustment mechanism.

5 BUSINESS AND CORPORATIONS: MODERNISATION AND FAIRNESS

The current model of corporate governance is based on a short-term mentality to deliver profits to shareholders, no matter the negative externalities to the planet, to society and even to the workers of those companies. To illustrate this, we can observe the dividends paid out to stakeholders in 2021, when the impact of the pandemic is still felt worldwide. Despite this, over 80% of companies maintained or even increased their dividend payments, with an increase of 66.4% in Europe.[74] The dividend payments have almost reached 2019 levels by mid-2021, as the graph on the right displays.

The trend of the corporate governance model was further aggravated by the liberalisation of trade and capital markets, whose bias towards price competition led to a downwards pressure on regulation, workers' wages, and environmental standards, but also favoured significant tax avoidance schemes and an environment of harmful competition between countries. The PES has been fighting to improve worker representation, social dialogue and collective bargaining, in order to promote a private sector that works for the many, and to modernise the corporate tax system. The international tax regime, originally designed for the economy of the early twentieth century, is outdated and in dire need of a progressive reform.

In order to face the challenges mentioned, the PES believes that we must reflect on the distinction between those sectors which create value and those who simply extract value, such as speculative financial services or companies with monopolistic positions in the digital area. This principle can also provide an updated basis for new forms of taxation and re-distribution. Those who only extract value cannot be left out of taxation systems.[75]

In 2018, it was estimated that the average effective tax rate paid by digital companies in the EU was around half the amount that traditional companies paid, making it clear that the current system is completely unbalanced[76]:

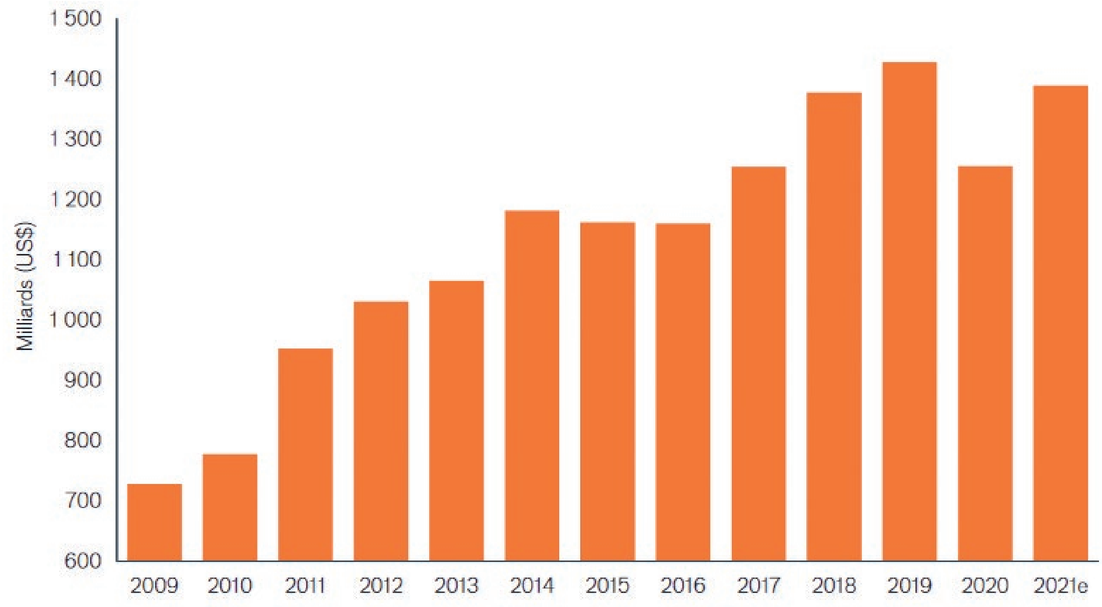


Chart 6: Annual dividends paid by companies world-wide in millions of US dollars by Janus Henderson, 2021

KEY ASPECTS

1 The existing international tax rules are not fit to deal with the challenges of new business models. The European Union needs to reform its corporate tax rules.

A Large corporations, particularly those operating in the digital sphere, should pay taxes where value is being created.

B We need to put an end to harmful tax competition by introducing a minimum effective corporate tax rate.

2 Given the urgency to secure more revenues and to safeguard tax justice, interim options should be considered, such as the digital services tax or the Single Market Levy.

3 The pandemic has created a brutal market distortion that favours some businesses, while bankrupting others. We need a tax on excessive Covid-19 profits to ease the burden on those who were most affected.

4 The European Commission should seek to correct any market distortion caused by disparities in tax policy.

A The Code of Conduct Group on Business Taxation should be subject to higher standards of transparency and scrutiny. While remaining a tool for coordination, the Code could be included in EU law and its decisions should be taken by qualified majority voting.

B Article 116 TFEU offers a pathway that prevents vetoes from perpetrators, thus improving the chances of a positive reform.

5 Implementing public country by country reporting for large corporations will provide the data to sustain the claim that tax havens are unfair recipients of revenue stemming from other countries.

6 The financial sector has managed to avoid paying back to society the efforts made after the 2008 crisis. We urge the quick adoption of the financial transactions tax.

7 Honouring our legacy as a supporter of multilateralism and international cooperation is paramount. Europe shall remain committed to the OECD level negotiations on international tax law reform, and should consider cooperation on new tax policies, including on the financial transactions tax.

8 In case there is not an ambitious agreement between the parties involved in the OECD negotiations, the European Union shall not refrain from seeking to deliver on these reforms.

A BUSINESS TAXATION FOR THE 21ST CENTURY

In recent decades, the economy became more global, integrated and digital. It provided opportunities, but also challenges. The international tax ruleset, originally designed in the 1920s, would soon prove to be inadequate to deal with these trends. New business models have made it easier for companies to operate in markets in which they have very little physical presence. This allowed for many corporations to book their profits in low-tax jurisdictions even though most of their revenues came from other markets. Nowhere is this more the case than in the **digital economy,** where the **dissociation between physical presence and revenue-generation** has made it exceptionally easy to dominate a country's market without having a single employee there. Not only do these digital companies pay low or no tax, but they also decrease the profits and, therefore, the sum of paid taxes by their competitors, particularly local small businesses.

The digital economy is challenging the fiscal sovereignty of national governments – and honest taxpayers, both workers and small business owners expect us to address this issue. Given that the digital transition is one of the priorities for the European Union, it is paramount to act and show that digitalisation is not in service of a few large corporations – it must be a fair process that provides job opportunities for workers and positive spillovers for society as a whole. The Party of European Socialists called for action on taxing the digital economy and showed that progressives are standing by fairness: we believe **that taxes must be paid where value is created.**

The European Commission initially reacted in March 2018 by presenting two different proposals. Even though **the digital services tax[77] (DST) and the significant digital presence[78] (SDP)** would lead to a more adequate taxation of digital economic activity, Member States failed to reach a compromise and many pursued national DSTs. However, due to fragmentation of the internal market and retaliation threats by President Donald Trump[79], discussions have now moved to the OECD level.

At the OECD, two pillars are being discussed: Pillar One focuses on new taxing rights, and Pillar Two focuses on establishing a minimum corporate tax rate. The PES supports these pillars and calls for an adequate level of tax rate, as well as for broadening the scope to include assets, labour and sales. We do not support including employment in the scope, as this could lead to a reduction of wages. In this regard, the S&D Group in the European Parliament has called for a minimum effective corporate tax of 18%.

The PES supports the OECD discussions and a global solution, but also supports the commitment of European Commissioner for the Economy, Paolo Gentiloni, who has shown determination to deliver on a European solution in case there is no significant progress in the near future. Furthermore, the European Council agreement on a recovery package[80] mentions its intention to bring forward a proposal on a digital levy that seeks to provide revenue for repaying Next Generation EU. The Party of European Socialists welcomes this initiative, which follows our political family's long-term commitment[81] to ensure that everyone pays their fair share.

Proposal: A data economy at your service

One of the key aspects of the digital transformation and modernisation of Europe is the usage of data. This resource allows public authorities and businesses to improve services, increase efficiency, become more sustainable and develop new and more affordable alternatives. The European Commission has launched a data strategy[82] which seeks to create a single market for data to promote Europe's competitiveness and data sovereignty, but also that our values are upheld and that the privacy of citizens is not compromised.

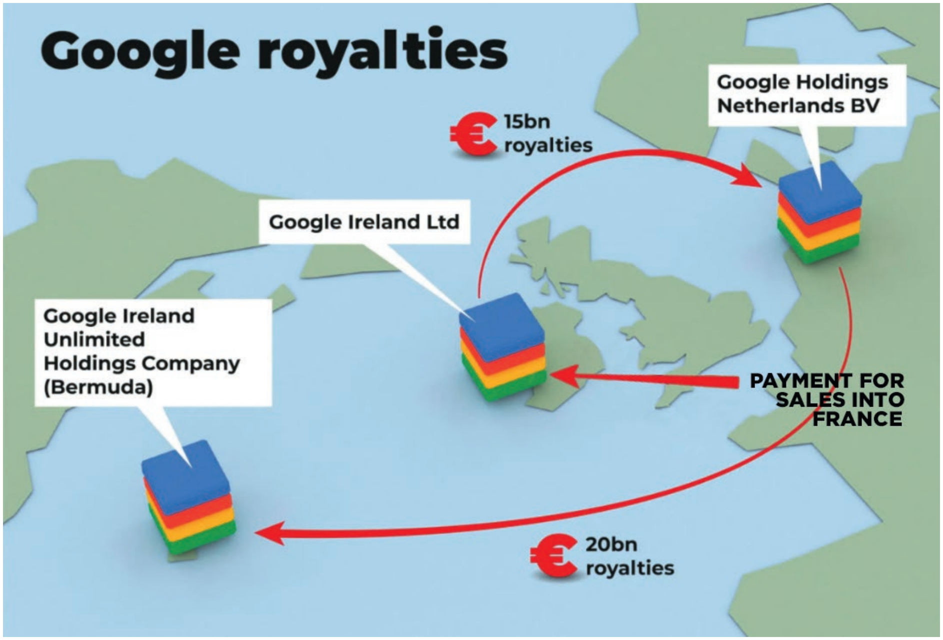
However, considering the recent scandals of reckless data mining and exploitation by tech companies, we must ensure that our new framework is human-centred and determined to secure the privacy of our citizens, not focused on aggressive farming of personal data[83]. We should ensure that data from our citizens is stored in the EU, but also consider a tax on data storage to incentivise recycling of data sets and to reduce a structural competitive advantage held by established industries and companies.

Our data is worth hundreds of billions of euros. However, this value stays within large companies or is used by data brokers, who do not make any contributions via taxes from internet users, who they are profiting from. A small tax on data storage would not affect these companies and could raise billions in taxes which could be channelled into improving the internet and society. What is more, this tax can also make companies reconsider which countries they store our data in. Tax incentives could also be used to encourage companies to comply with data privacy regulations.

This option ensures that companies need to carefully select the data to be used, thus reducing the industry's leverage regarding advertisement targeting and modelling of online platforms based on our behaviours.

Nevertheless, the limitations of our corporate tax system are not confined to the digital economy. International tax planning by multinational corporations (MNCs) became a widespread public debate in the aftermath of the global financial crisis and as a follow up to several tax evasion and avoidance scandals. Statutory corporate tax rates have fallen dramatically since 1985 on a global scale, from 49% to just 23%. In addition, it is estimated that $427 billion is lost every year due to tax abuse and tax evasion, which is the equivalent to the salary of 34 million nurses' yearly salary. Conversely, payouts to stakeholders by corporations have skyrocketed: in France, CAC40 corporations increased these payouts by 70%, as well as their CEOs salaries by 60%; whereas the average salary for employees of the same companies only increased by 20%.[84]

According to Bloomberg Economics, in the last 30 years, the combination of lower tax rates and this ruthless optimisation of taxes has led to the average tax rate for the biggest global firms to drop from 35% to just 17% (based on data from 1990 to 2020).[85]



The existing ruleset is outdated: its loopholes allow MNCs to artificially book profits in low tax jurisdictions, which grants them an unfair competitive advantage towards SMEs. Instead of one global entity, each subsidiary of a multinational corporation is judged as a single entity, thus enabling cross-border strategic transfer of profits to tax havens – countries with low or no tax on corporations. Even if most profits are made in one competitive market, these can be booked in another jurisdiction by using accounting wizardry. **Tax havens are not merely engaging in harmful competition; they are draining resources from other economies.**

A well-known strategy used by multinationals is the "Double Irish with a Dutch Sandwich". This scheme, aimed at avoiding taxes, is based on taking advantage of the characteristics of national tax systems. Typically, the multinational enterprise sends its profits to an Irish-based company, and then to a Dutch company, before returning them to a different Irish company which has its headquarters in a tax haven. This practice fell under strong scrutiny by the EU in 2014, when it was unveiled that several billion euros were lost every year due to this practice. Although Irish laws were reformed to end the practice, companies which already used this scheme before then were able to keep it until 2020.[86]

The biggest losers in this entire situation are countries which have higher tax rates – who are dealt a large blow, and are pushed to lower their rates – and regular taxpayers, who are forced to take on the burden to finance public infrastructure.
The graph below shows that, in 2018, out of the 10 largest tax havens in the world, five are in fact EU Member States.[87]

In terms of revenue, the figures are staggering: calculations in 2020 point at **€170 billion a year** being lost to tax havens due to profit shifting practices and tax optimisation strategies. In 2016, the most affected countries were the following[88]:

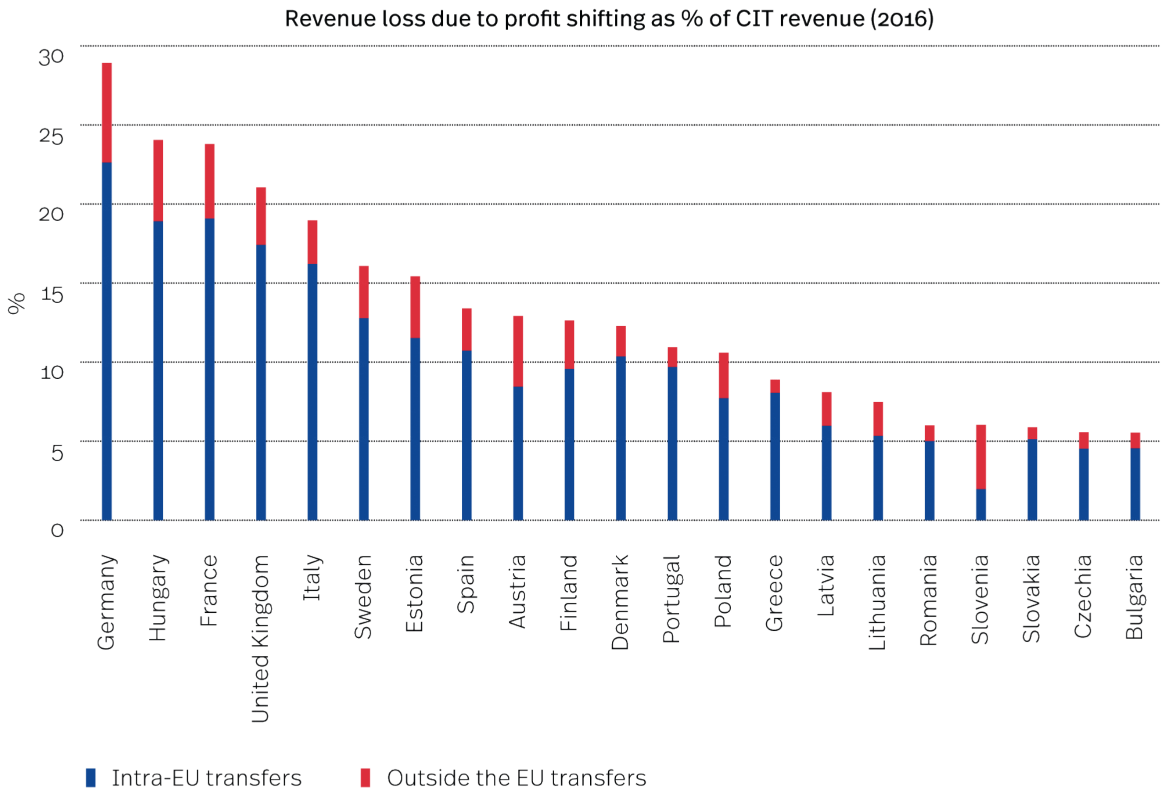


Chart 7: Revenue loss due to profit shifting as % of revenue (2016)

Given the circumstances, it is urgent to establish updated fair rules that prevent large companies from abusing legal loopholes. We propose reviving the proposal to create an **EU common consolidated corporate tax base (CCCTB)[89] – now known as BEFIT –** for large corporations operating in the single market, launched by the former Socialist Commissioner, Pierre Moscovici, in 2016. **The aim is to create a corporate tax justice mechanism that follows a profit allocation formula to distribute taxation rights on par with the contribution of each market.**

In May 2021, thanks to the efforts of PES Commissioner Gentiloni, the European Commission put forward its Communication on Business Taxation for the 21st century[90], where it presented its updated proposal for a CCCTB, known as the Business in Europe: Framework for Income Taxation (BEFIT). BEFIT, to be proposed in 2023, will serve as a single taxation rulebook for corporations in the European Union.

The PES welcomes broad criteria, including labour, sales and assets, to provide a fair and long-lasting reform. By doing so, the EU would ensure a fair allocation of tax revenue, namely to countries where there is no physical establishment of a business – thus also bringing the reform to the digital economy. The corporate tax justice mechanism is paramount to ensure that dirty tax schemes are excluded from business optimisation strategies. **Profit shifting should not be a competitiveness strategy.**

Proposal: Tax on Covid-19 profits

Excessive profiteering from the pandemic is not fair. We encourage the creation of a windfall profits tax, inspired by the successful excess profits duty that was introduced in the past, namely during war times by the UK[91] and US President Franklin D. Roosevelt. Judging by these experiences, a tax on excess profits can render substantial revenues and is flexible, thus ensuring sources of tax revenue while coping with the uncertainties caused by the pandemic and removing ill-spirited incentives for price gauging.

This tax on Covid-19 profiteering is temporary and it seeks to curb profits by industries which have benefited from an externality – in this case, companies whose profits have dramatically increased due to Covid-19 are in conditions to give back to the communities and relief the burden from working people and the middle class. Additional tax revenue can be channelled towards improving public services, namely health systems, and providing further support to workers, SMEs and the real economy.

When implemented, the BEFIT should also provide support to EU programmes. A small portion of the total tax rate could be transferred to the EU budget as **a new own resource,** thus ensuring that **those who enjoy the most benefits from the internal market** also contribute to keep it running properly and fairly. Given that negotiations for the BEFIT are likely to be demanding, we support the implementation of a **Single Market Levy.**

Proposal: Single Market Levy

The Single Market Levy could work like the suggested new own resource by the European Commission, to be applied on the turnover of large multinational enterprises as a corrective mechanism of the single market's playing field. This provisional measure follows the same "user pays" principle and does not put the burden on working people and the middle class. A proposal could be to apply the "user pays" principle, which means the contribution from taxpayers decreases, and the tax is paid for by those who make use of the service. In line with this principle, a Single Market Levy, applied to big companies or in the form of lump sum fees would also make companies which benefit so much from operating in the EU's single market to contribute towards maintaining it.

The Single Market Levy should be considered a temporary tool to mitigate the negative impact of tax avoidance by large corporations. In that sense it could include a 'sunset-clause', which retires it after the BEFIT gets implemented.

Lastly, we must ensure that our modern framework for corporations includes greater transparency and accountability. **Public scrutiny is often a key tool for ensuring fairer outcomes.** Implementing public country by country reporting (pCBCR) for multinational enterprises, as proposed by the European Commission in the past[92], must be considered. A global report does not provide significant data to determine if companies are paying taxes where they should, while detailed reports based on each jurisdiction would shine a light on cases where corporations abuse rules to shift profits towards tax havens[93]. Although it does not represent an immediate improvement on tax justice by itself, pCBCR would flag abusive tax practices, and it could also foster a better-informed debate on the potential exiting shortcomings of current tax laws. Given that pCBCR is an accounting review and sets minimum standards for large corporations operating within the single market, it may be subject to QMV immediately – we support the Commission's and the Portuguese Presidency recent actions to fast track the implementation of this progressive reform through the community method.

Explainer: OECD negotiations and globalisation for the many

We welcome the OECD negotiations for reforming international taxation, an historic opportunity to make globalization work for the many. As previously mentioned, multinationals have been operating by different rules for way too long – it is time to act, stop their free riding and push for tax justice. The PES argues that taxing rights should be allocated towards where value is created and that we need to put an end to the corporate tax race to the bottom. A global agreement is paramount to ensure that no jurisdiction may continue to jeopardise national tax systems. We support both Pillars under discussion at the OECD level, regarding new, fairer profit allocation rules, and implementing a minimum effective corporate tax rate.

While the EU should remain committed to this process, it is equally important to highlight our willingness to pursue an alternative solution in case the OECD negotiations fail to provide an adequate reform of the international tax ruleset. Europe must be ready to develop and implement the BEFIT, or any similar corporate tax justice mechanism, in case there is not a timely OECD agreement or if its outcome still requires a complementary and compatible ruleset in order to improve the standards for the internal market.

In October 2020, the OECD published the blueprints for both Pillars and an economic impact assessment. The global combined additional revenue from P1 and P2 would be between $ 50 to 80 billion per year - or $ 100 billion (approximately € 84 billion) if we consider the US minimum tax on overseas profits (GILTI). It also estimates that tax havens are the only jurisdictions losing revenue from this reform. High, middle and low income countries would all benefit. Furthermore, the impact assessment estimates that a 'no deal' scenario and, consequently, a proliferation of national measures would have a significantly negative impact in global GDP. A global agreement is a key tool for tax justice; but also the most pragmatic solution to safeguard international economic relations.

B MAKE THE FINANCIAL SECTOR PAY ITS PART

The global financial crisis is still in our recent memory: it took markets by storm and exposed not only a system moved by incessant speculation and high risk taking, but also the inadequacy of the existing regulatory framework for financial services. Despite starting in the United States due to a subprime mortgage bubble, in 2007, it developed into an international banking crisis and a consequential severe economic downturn. Governments had to intervene in order to remedy the situation and ease the socioeconomic impact. In several Member States, national governments and taxpayers were called into action not only to prevent a downwards spiral, but also to provide a countercyclical stimulus. Their efforts to compensate for the financial crisis led to a significant increase in public debt: following an initial call for expenditure (2007-2009), the debt rose from 65.9% to 80.2% in the Eurozone, and it increased from 61.3% to 74.0% in the whole European Union. **It is time for the financial sector to pay its fair share.**

Originally launched in 2011 by our political family, the **Financial Transaction Tax (FTT)** was estimated to generate €57 billion per year[94]. Despite efforts by the European Commission and the popularity of this proposal in several countries, the European Council, subject to unanimity rule on these matters, was unable to find a consensus to implement it. As a follow-up, a group of 11 Member States agreed to develop this tax through enhanced cooperation: Belgium, Germany, Greece, Estonia, Spain, France, Italy, Austria, Portugal, Slovenia, and Slovakia. Negotiations have been lengthy and difficult[95], but **following several years of pressure from the Socialists and Democrats[96], the introduction of an FTT seems to be within reach.** Even though one Member State has left the enhanced cooperation procedure, (Estonia, in 2015), the remaining countries are discussing a compromise proposal based on the French FTT created in 2012, that, albeit a less ambitious scope, **would generate €3.45 billion per year** and would lead to partially mutualised revenues.

According to the current proposal[97], launched by the German Finance Minister, Olaf Scholz, in 2019 and based on an agreement between France, Germany and Italy, a small tax of 0.2% is levied on each trade of shares from large corporations (with a market cap above €1 billion) whose head office is in the European Union. Compared to the first draft on the table, which ought to include bonds and derivatives as well, the FTT proposal currently under negotiation would have less influence in curbing financial speculation and would provide less revenue. Nevertheless, it represents **a positive step towards making the financial sector pay its fair share.** In addition, if we take into account the results from the French FTT, it does not have a significant effect on market volatility and even liquidity[98], thus pre-emptively addressing the concerns of some its critics.

National measures: Denmark puts the financial sector in service of society

The Social Democratic Party, currently in government, has recently announced an early retirement fund for workers in particularly difficult jobs[99]. The fund will be available to people aged 61 or more who have spent between 42 and 44 years in the labour market, which is expected to cover 38,000 people. After years of hard work and paid taxes, workers can enjoy more years as retirees and with better health. This is a progressive shift towards an economy of wellbeing which serves the people and their needs.

In order to support this retirement fund, prime minister Mette Frederiksen announced tax measures to ensure that gains of the financial sector are in service of society, not just in accounting books. The tax measures include a targeted corporate tax on banks and increased taxes for stock market returns – but also other policies, such as a cap in tax deductions for citizens with higher salaries.

For Socialists and Democrats, implementing the FTT is also important because it can contribute to the de-financialisation of our economy. During many decades, the neoliberal paradigm sponsored an environment in which finance was a key driver of economic growth[100]. Instead of promoting investments in the real economy, in workers' wages or means of production[101], free market fundamentalism focused on safeguarding the profits of shareholders, reducing taxes on capital gains and reducing barriers to capital. This approach had direct implications on income and wealth inequality since it provided outstanding rewards for the development of highly complex financial assets[102]. Given that it became more profitable for affluent citizens to dedicate themselves to the financial sector, there was a brain drain from other productive sectors in the real economy, with negative consequences for industries that rely on high skilled work, including a decrease in labour productivity, total factor productivity and value-added growth[103]. In parallel, the combination of significant capital inflows and reckless risk taking, which was heavily rewarded, led to a boom-and-bust economy which, eventually, culminated in the global financial crisis. Adopting a FTT can tip the scale in favour of work in the real economy, thus progressively reducing the weight of financial services in the economy – that is, without neglecting its importance.

Overall, despite recognizing that the steps taken so far are headed in the right direction, our political family is not resting on the accomplishments. We seek to upgrade the FTT proposal under discussion by taking into account the global interdependence of financial markets, as demonstrated by the financial crisis in 2008. All Member States should be encouraged to join this initiative in order to safeguard a level playing field in the single market and a broader, fairer tax base for the FTT. However, even if the European Union can limit market distortion caused by financial speculation, it is paramount to ensure that our liability to third markets is curbed. Following the implementation of the FTT at the EU level, we would encourage the establishment of **a framework for a global coordination on a financial transactions tax,** possibly at the OECD level. A harmonized rate across the members of the OECD is not only feasible, but would also provide a much-needed stability in global markets by restricting distortion[104]. Those discussions could follow the original proposal by the European Commission, which included an enhanced scope that would prove more efficient in curbing speculation.

Some EU Member States, such as Italy or Spain have implemented national FTTs. These are set at 0.2% for acquisitions of shares and do not affect SMEs. In the case of Spain, for example, it is expected to collect 850 million EUR every year.

Other countries have been running a Financial Activities Tax (FAT). This is a type of tax works as a VAT for financial institutions, with a different tax base than the FTT proposed above. Countries, such as Sweden, are also considering the implementation of this tax.

Our commitment to international cooperation and **multilateralism must be the centrepiece for a new breed of globalisation:** one that is not consumed and driven by the excesses of pervasive capitalism, but an alternative which seeks to build a fairer system that generates prosperity for all. The financial sector played a key role in creating a crisis, now it must be oriented to repay the efforts made by governments and taxpayers.

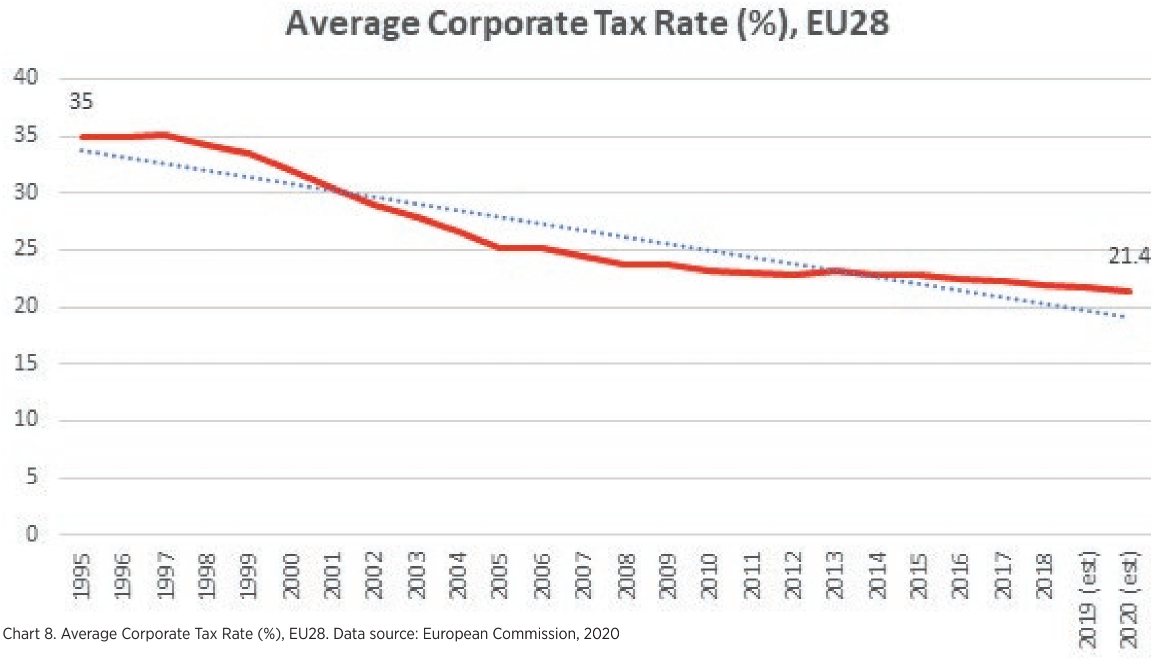


Chart 8. Average Corporate Tax Rate (%), EU28. Data source: European Commission, 2020

C NO MORE HARMFUL TAX COMPETITION

Since the early 1980s, the global average corporate tax rate has decreased from above 40% to less than 25% in 2015[105]. **In the European Union, the average corporate tax rate dropped from 35% in 1995 to 21.4% in 2020[106].**

The economic and monetary union needs an enhanced framework of tax coordination and cooperation, particularly in the field of corporate taxation. This is fundamental to ensure convergence and fair competition in the internal market. Back in 1992, a report contracted by the European Commission suggested a minimum corporate tax of 30%[107], which indicates the ambition for a proper economic and monetary union. However, today we are still lacking a minimum level of corporate taxation and the results of such inaction are clear. The current environment means that countries are forced to keep lowering corporate taxation in order to be attractive for business and secure tax revenue – which already rightfully belonged to them. We must put an end to this **corporate tax 'race to the bottom'.**

Reforming the Code of Conduct Group on Business Taxation[108] is a starting point to address this issue. Set in 1998 to address abusive practices regarding corporate taxation, the group's work lacks transparency and accountability as it is carried out behind closed doors. It also follows a consensual approach, which means that the minimum common denominator prevails, that is, only the absolute worse harmful tax practices are addressed. The EU needs a more ambitious framework for these discussions: we welcome Commissioner Gentiloni's intention to shift the decision-making method to qualified majority voting and to improve information disclosure. Corporate taxation is playing a decisive role in shaping the single market, but there is also growing evidence of how some harmful measures are distorting the single market and undermining the principles of fair competition. Europe needs a growth-friendly environment in the internal market; yet, national policies that seek to generate additional value must not represent predatory actions for the economic output of fellow Member States. The Code of Conduct Group on Business Taxation should be formally acknowledged by EU law and held to democratic scrutiny by the European Parliament, while remaining a tool for policy coordination.

Pursuing legislative harmonisation by using Article 116 TFEU[109] should also be considered. Art. 116 TFEU postulates that the Commission, Parliament and Council, following a consultation with the Member States concerned, are able to issue the necessary directives to eliminate the identified distortion with the ordinary legislative procedure. Considering that internal market legislation is subject to qualified majority voting (QMV) in the Council, there is an **opportunity for the EU institutions to incentivise Member States to reduce harmful tax competition.** In this case, the corrective tax legislation would not be subject to a veto by countries that employ such harmful policies. Unanimity, which has prevented tax cooperation and progress in tackling evasion, avoidance and predatory tax policies, would be replaced by QMV in this particular case. This should also be considered a starting point for a discussion about reforming the voting methods when deliberating on tax measures, particularly those that interfere with the integrity of the single market. Tax evasion, profit shifting schemes and aggressive tax planning require broader action and true European cooperation.

Overall, the European integration process has taken down barriers for capital flows, thus favouring cross-border investments and fostering economic growth. Yet, it also means that, if displeased with taxes and regulation, assets and resources may be swiftly moved abroad. This landscape is harmful for everyone but the wealthiest investors and large multinational corporations which shop around for the lowest tax rates. It leads not only to the underfunding of public services, but also leaves families, workers and small business owners to foot the bill[110].

We see tax competition as a problem. In this context, minimum taxes rates can be used as a solution, or at least, they can minimize tax competition. In order to prevent aggressive tax competition, **a minimum effective corporate tax rate** should be considered as part of the BEFIT – the EU's tax justice mechanism. The G7's agreement on a minimum corporate tax rate of 15% in June 2021 was a historic step forward towards a fairer tax system. In October 2021, **the agreement was endorsed at the G20 Summit.** In this regard, PES celebrates the efforts made by our political family, which has long been calling for a reform of the current, outdated system. We demand a sufficiently high minimum tax rate to reverse the global race to the bottom.

Without it, Member States will keep being forced to compete against each other for the lowest possible rate, thus reducing each other's tax revenue. To effectively address this downward spiral both a common tax base and a minimum tax rate must be implemented, be that at European or international level. **Europe is facing a common challenge, the Covid-19 pandemic – and, for progressives, the answer is to build up on the solidarity and move from tax competition to tax cooperation.**

We need a modern and fair corporate tax system that is fit for the 21st century.

Proposals:

- A digital services tax should be considered if there is no global or broader solution.
- Protect our privacy and reduce the leverage of companies over consumers by creating a tax on personal data storage.
- Introduce an interim Single Market Levy for multinational corporations.
- Implement a BEFIT, including a minimum effective corporate tax rate and new profit allocation rules to ensure that harmful tax practices are not being rewarded.
- Consider a Pandemic excess profits tax, a temporary Covid-19 measure.
- Establish a minimum effective corporate tax rate for corporations operating in the single market.
- The Code of Conduct Group should be included into EU law and subject to higher transparency standards and democratic scrutiny by the European Parliament. It should deliberate by QMV and remain a coordination tool.
- Article 116 TFEU must be considered to prevent harmful tax competition and market distortion.
- Improve corporate transparency by introducing public country by country reporting as a mandatory practice within the European Union.
- Adopt the financial transactions tax.
- Remain committed to the OECD level negotiations on international tax law reform.
- Push forward to cooperation on new tax policies and implement the financial transaction tax.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6 CONNECTING THE EUROPEAN DIMENSION

Considering the interdependent nature of most challenges in the taxation field, it is clear that providing an adequate response requires a truly European agenda. We need to move beyond the current framework, which is strong-arming countries into a harmful competition environment. While a few Member States may benefit, the large majority will keep losing revenues. A policy shift is required: not only to fix legal loopholes and uphold tax justice, but also to ensure that the European Union is ready to assist Member States in pursuing a human-centered recovery and an inclusive socioeconomic model. Reforming our common tax rules is a starting point for safeguarding the welfare state by putting an end to harmful tax practices.

KEY ASPECTS

1 EU joint action is fundamental to ensure that national tax policies are not undermined by harmful competition. The Council should use qualified majority vote to agree on specific tax affairs, particularly related to tax evasion and avoidance.

2 Following the agreement on a recovery package, including MFF and Next Generation EU, the discussion about repayment methods is fundamental. Future budget cuts must be avoided.

3 New own resources, such as those previously proposed, would improve the European Union's ambition and could provide the necessary funding for developing fundamental permanent tools, such as a fiscal capacity for the Eurozone.

4 The European Semester should be a platform for tax justice by including specific recommendations to address harmful tax practices.

5 The European Parliament's subcommittee on taxation affairs will ensure more accountability from decision-makers and improve the public discussion.

Currently, **national tax policies are still undermined by the lack of cooperation, coordination and harmonization.** The wealthiest citizens and large corporations have been exploiting the current framework to avoid taxes and to leave the bills for working people and the middle class. The owners of capital, particularly financial assets and intellectual property, can leverage its high mobility to avoid taxation and to pressure countries into reducing their taxes[111]. Individual action is not enough: a government's decision to create or increase a tax can be unfruitful to produce the intended results because of tax planning and other abusive schemes. **We need to act together.** Without a joint commitment, tax evasion and avoidance will keep feeding extreme wealth accumulation, growing inequalities and an unlevelled playing field for businesses. It is paramount to ensure that the European Union has the tools to act accordingly and timely in order to build a fairer society.

For that matter, while in full respect with subsidiarity, **whenever a tax matter is liable to interfere with the single market,** particularly in cases of race to the bottom, tax avoidance and other abusive schemes, **Member States should use qualified majority voting.** By moving away from unanimity, the European Union could ensure a level playing field and moderate the use of the existing veto power that can promote backsliding of tax reform in the Union. Capital income has been given the privilege of enjoying high mobility without any trade-off. It is time we work together to ensure a fair regime that does not pit Member States against each other, but rather promotes cooperation for common and shared prosperity. **Either we act together in favour of workers and small companies or we fall prey to the interests of large multinational enterprises.** In the meanwhile, countries willing to improve their tax systems should not refrain from engaging in enhanced cooperation procedures in order to make progress.

We argue that more cooperation in the field of taxation is not an erosion of State sovereignty; in fact, it is the exact opposite. **It is not possible to claim sovereignty when our tax policies are forced upon us by multinational enterprises** and the wealthiest. Freeing our national governments from the pressure of large corporations is recovering sovereignty, not losing it. For the moment, unanimity deliberation on certain tax issues is undermining national policy-making. Despite having the formal legal power to intervene (de jure – it is recognised as such), governments' decisions are hostage to the priorities of big companies, thus limiting the actual power (de facto – what really happens) it has to individually pursue the desired tax regime. We must keep leading the efforts[112] to change voting methods in the Council and end with this dual system that grants privileges for the wealthiest and leaves the bills for working people and middle-class families.

Moreover, progress in the field of taxation also leads **to improvements in the whole economic governance framework.** Firstly, cooperation to fix tax loopholes and the coordinated introduction of taxes would lead to immediate and significant **improvements in the financial stability and debt sustainability of Member States.** Fixing the shortcomings of the existing taxation landscape would contribute to fixing the invisible fiscal transfers that take place when profits and tax revenue are shifted from countries where value is generated towards other jurisdictions. Even without mutualisation of revenues, this would guarantee that countries are able to pursue taxation policies without the concern of capital flight or profit shifting, thus granting them more fiscal firepower and, therefore, empowering each country.

Secondly, **new European own resources, as suggested throughout this document, would relieve national contributions and prevent budget cuts related to the repayments of Next Generation EU[113].** The €750 billion recovery plan should not come as an expense for the average citizen nor imply the reduction of the future EU budgets' ambition. Tax justice is more important than ever and we need a progressive EU-wide tax agenda that follows the user-pays principle, thus relieving working people and the middle class. It is paramount to shift the tax burden away from families or small businesses towards those which have benefited the most from the internal market and accumulated significant surpluses, the ultrawealthy and multinational enterprises. By doing such, the European Union would ensure an inclusive recovery and a long-lasting improvement of social cohesion.

Thirdly, and finally, European own resources could also assist or directly contribute to the **establishment of a truly fiscal capacity.** Ever since the introduction of the euro as the single currency, the Eurozone's prospects of economic upwards convergence have been limited by the lack of resources: both a significant budgetary instrument to fix economic asymmetries, and automatic stabilisers, such as the PES trademark policy, the European Unemployment Reinsurance Scheme, or other tools able to provide a counter-cyclical stimulus. These are a pre-condition **to ensure a fairer distribution of benefits of the internal market** across Member States, which still remains suboptimal (see figure 1 below). Member States sharing the euro face several constraints on the execution of fiscal policies, which also leads to a disproportionate reliance on internal devaluation for economic adjustments. This, as proven during the euro crises, undermines public support for the single currency and the European Union. It is clear that the Eurozone remains an incomplete monetary area due to the lack of adequate instruments to promote upwards economic convergence[114]. New own resources offer us the chance to create such tools without putting the burden on national budgets.

Furthermore, given that national tax policies are linked to the EU's economic governance, we must develop a framework that promotes a holistic perspective, that is, an agenda for the common good. We welcome the remarks by Paolo Gentiloni, the European Commissioner for Economic Affairs, who suggested that, in order to secure funding under Next Generation EU, national recovery and resilience plans should address practices that facilitate aggressive tax planning[115]. When profits are shifted, there is a detrimental impact for economies where value was truly created. In addition, this approach could be expanded within the European economic governance. **The European Semester should promote progressive tax policies that are forward-looking and support the collective wellbeing of society.** Policy recommendations should follow a broader analysis that accounts for the negative externalities of harmful tax competition.

All decision-making on taxation affairs at the EU level, including the European Semester, must include a proper involvement of the only directly elected European institution in order to **ensure adequate public scrutiny and full democratic accountability.** In recent years, the European Parliament was instrumental in shining a light on tax evasion schemes and financial crimes. The special committees (TAXE, TAX2, PANA, TAX3) were able not only to raise awareness towards the dimension of illicit financial flows, but also to promote a widespread discussion about the possible solutions. Given the recurrent nature of such scandals and their detrimental impact to our societies and citizens, it was paramount to take the next step. Following several years of pressure from our political family, the European Parliament agreed to establish a fully-fledged **tax affairs subcommittee[116].** The new FISC subcommittee will be responsible for keeping both national governments and the European Commission accountable, thus increasing the pressure for positive change.

We need a new paradigm that incentivises Member States to operate in a truly cooperative logic. This will lay down the basis for a more social and fairer Europe.

Proposals:

- **The European Union should deliberate by qualified majority voting on some specific tax issues.**

- **Adopt new own resources to relief national budgets and safeguard adequate funding for future European programmes.**

- **Develop a fiscal capacity for the Eurozone.**

- **The European Semester's recommendations should address harmful tax practices.**

7 CONCLUSION

Europe will not be the same after Covid-19. The shortcomings of business as usual were exposed and must spark a meaningful reflection about the society we want to have in the future. For many years, we were told that, as long as the economy was growing, the free market would soon allocate resources towards the needs and priorities of the middle class, working people and the most disadvantaged. Yet, invisible hands and trickle-down forces have failed to deliver on that promise; in fact, these neoliberal policies seem tailored to benefit ultrarich individuals at the top of the wealth distribution instead. **For Social Democrats, a return to a past in which opportunities do not reach the most disadvantaged is unacceptable.** One of the underlying principles of the welfare state is that, by providing fundamental services, the government ensures that everyone has a fair shot at improving their social and economic conditions. **This includes women, who face particular setbacks in the field of taxation and who rely especially on well-functioning welfare states. Our intention is to build up on the core of social democracy and ensure that economic growth is not an end in itself, but rather a path to the wellbeing of all citizens.**

The urgency to act is clear. In the last months, several low-income households had to face a pandemic while dealing with poor housing conditions, or the impossibility to reconvert to teleworking. This includes many frontline workers, whose honest job found a new appreciation by the general public, but still had to risk their health in order to ensure that our societies were functional. In the meanwhile, a few ultrawealthy individuals saw their fortunes skyrocket as large tech and digital companies enjoyed massive profits and swallowed the market share of small businesses. Yet, **Covid-19 is just the tip of the iceberg.** Extreme inequality, the climate crisis, digitalisation, demographic changes, the regional divide, unregulated globalisation, market dominance by few corporations, proliferation of tax evasion and avoidance schemes, and unreliability from traditional international partners – all of these are a call to action.

By agreeing to an unprecedented instrument, the €750 billion Next Generation EU, the European Union is creating an opportunity for change. It is highly important that these funds are used to push for the green and digital transition, and also to strengthen the social dimension in the EU, especially in the aftermath of the Covid-19 crisis. The Party of European Socialists argues for a human-centered alternative to the free-market fundamentalism whose track record is composed of growing inequalities, extreme wealth accumulation and disregard for planetary boundaries. We are putting forward a bold tax agenda, aiming to promote the social, economic and environmental sustainability that today's society requires. Taxation must be progressive and shifted towards those who can afford to contribute more. The tax burden must be shifted away from families, working people and the middle class. Now is the time for large corporations and ultrawealthy individuals, tax evaders and avoiders, big polluters and the financial sector to be called upon their responsibilities and contribute accordingly. It is time for them to pay their fair share, especially those sectors which only extract value, and do not make a contribution to society by also creating value

This is also the moment to move beyond unanimity on tax matters related to the distortion of the single market, particularly in cases of profit shifting and harmful tax competition. Achieving tax justice and building fairer societies has become an interdependent challenge that requires a joint European approach. This is not undermining national sovereignty; on the contrary. Coordination and cooperation at the EU level are key to ensure that each Member State is able to pursue their agenda without risks of tax evasion, avoidance and other harmful schemes. The choice we are faced with is to either engage in extreme tax competition, driven by the interests of multinational enterprises and wealthy individuals, or to agree on a common set of rules that provides taxation rights to jurisdictions where value is created and favours ambitious tax systems. Instead of inciting Member States to actively seek to drain resources from each other, we can build a framework that encourages cooperation, value creation within the EU single market, and to restore the ability to fund a strong and fully functional welfare state. This is a tax agenda for everyone; not just the wealthy.

Taxation slowly became a complex subject, dealt exclusively by experts and professionals. However, taxes are also a fundamental political tool: they reflect our priorities as a society and our ambition in achieving them. People might not be experts in tax policy, but they know what injustice means. It is time for a new tax agenda.

8 GLOSSARY

A

Arm's Length Principle - International standard for allocation of taxable income to associated enterprises. It states that transactions between related entities (via management, control or capital) should follow the same terms and conditions which would have been applied between non-related entities for comparable uncontrolled transactions.

B

Bond – Fixed income investment, typically a debt obligation from a government or corporation.

C

Capital gains – Income from the sale of capital asset.

Consolidated tax base – Within a particular jurisdiction, e.g. a set of countries, the subsidiaries are included in the corporate group's accounting if controlled by the parent company.

Consumption tax - Tax generally intended to fall on the consumption of goods and services.

D

Direct tax - Taxes imposed on the person who pays it, either on income, capital gains or net worth.

Dividends – Distribution of profits by a corporation to its shareholders. This income is taxable capital income of shareholders.

E

Effective tax rate - Average tax rate paid on a given income.

F

Flat tax - A tax whose rate is the same for all of the income levels.

I

Indirect tax - Tax imposed on certain transactions, goods or events, typically collected by an intermediary from the person who bears the ultimate economic burden of the tax. Examples include VAT, sales tax, excise duties, etc.

Intangibles – Assets which lack physical substance. An intangible asset is usually very hard to evaluate. Examples are patents, copyright, franchises, goodwill, trademarks, and trade names.

L

Letter-box company - A company which complies only with the bare minimum for organisation and registration in a particular country while its actual commercial activities are carried out in another country. Also called a paper company, shell company or money box company.

Level playing field – A system in which there is a common set of rules for all economic players.

Luxury tax - Indirect tax imposed on non-essential, expensive commodities, such as jewellery, pearls and precious stones and metals, etc.

O

Offshore company - A company registered in a country in which it does not carry most of its business activities. It is commonly used for captive insurance, marketing abroad, international shipping and tax shelter schemes.

P

Parent company - Company with a substantial participation in the share capital of another company, called the subsidiary.

Permanent establishment – A fixed place through which the business of an enterprise is wholly or partly carried on, such as a branch, warehouse, factory, etc. Even if the company is not a resident in this jurisdiction, it will be liable for corporate income taxation.

Profit shifting – Allocation of income and expenses between related corporations or branches of the same legal entity in order to reduce the overall tax liability of the group or corporation. It is considered tax avoidance.

S

Securities – Tradeable financial asset, typically used to raise capital in public and private markets.

Stocks - Any shares representing ownership in any corporation or certificates or ownership interest in any corporation.

Subsidiary - Company effectively controlled by another company (i.e. the parent company).

T

Tax avoidance - A term generally used to describe arrangements of a taxpayer in order to reduce his tax liability. Although the arrangement is strictly legal, it is usually in contradiction with the intent of the law it purports to follow. See Profit shifting.

Tax evasion - A term that refers to illegal arrangements where liability to tax is hidden or ignored. For example, a taxpayer pays less tax than legally obligated by hiding income or information from the tax authorities.

Tax fraud - Deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced, etc.

Tax harmonisation - Term usually used to refer to the process of removing fiscal barriers and discrepancies between two or more tax systems

Tax haven – A country which imposes a low or no tax, and is used by corporations to reduce tax liability. According to the OECD, tax havens have the following key characteristics; No or nominal taxes; Lack of effective exchange of information; Lack of transparency.

Tax planning - Arrangement of a person's business and /or private affairs in order to minimise tax liability.

Taxable base – Assets or amount on which a particular tax rate is applied, e.g. corporate income or personal income.

Transfer pricing – The price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income.

W

Wealth tax – Tax on an individual or entity's net worth, which is assets minus liabilities. This includes the total value of personal assets, including cash, bank deposits, real estate, assets in insurance and pension plans, ownership of unincorporated businesses, financial securities, and personal trusts.

Withholding tax - Tax on income imposed at source, that is, paid by the payer of the income rather than by the recipient of said income.

Worker compensation - Direct and indirect monetary and non-monetary rewards to employees.

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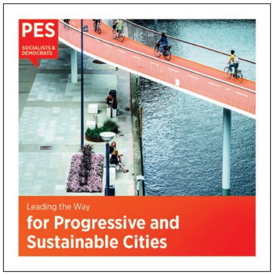

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