Committee on Economic and Monetary Affairs

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DRAFT REPORT

on creating an economically, socially and environmentally sustainable European tax system in the post-COVID economy
(2020/2259(INI))

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

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The European Parliament,

– having regard to its resolution of 10 February 2021 on the New Circular Economy Action Plan[1],

– having regard to its resolution of 13 November 2020 entitled ‘The sustainable Europe investment plan – how to finance the Green Deal’[2],

– having regard to its resolution of 15 January 2020 on the European Green Deal[3],

– having regard to its resolution of 18 December 2019 entitled ‘Fair taxation in a digitalised and globalised economy: BEPS 2.0’[4],

– having regard to its resolution of 15 January 2019 on gender equality and taxation policies in the EU[5],

– having regard to its resolution of 16 November 2017 on combating inequalities as a lever to boost job creation and growth[6],

– having regard to the EU’s 2030 greenhouse gas emissions target as endorsed by EU leaders in December 2020[7],

– having regard to the Eurostat report of 2020 entitled ‘Sustainable development in the European Union – Monitoring report on progress towards the SDGs in an EU context’,

– having regard to the Commission report of 2020 entitled ‘Taxation Trends in the European Union’,

– having regard to the Commission survey of 2020 entitled ‘Tax policies in the European Union’,

– having regard to the Commission communication of 20 May 2020 entitled ‘EU Biodiversity Strategy for 2030 – Bringing nature back into our lives’ (COM(2020)0380),

– having regard to the Commission proposal of 14 October 2020 for a decision of the

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[1] Texts adopted, P9_TA(2021)0040.
[2] Texts adopted, P9_TA(2020)0305.
[3] Texts adopted, P9_TA(2020)0005.
[4] Texts adopted, P9_TA(2019)0102.
[5] OJ C 411, 27.11.2020, p. 38.
[6] OJ C 356, 4.10.2018, p. 89.
[7] European Council conclusions, 10-11 December 2020.

European Parliament and of the Council on a General Union Environment Action Programme to 2030 (COM(2020)0652),

– having regard to the Commission communication of 15 July 2020 entitled ‘An Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy’ (COM(2020)0312),

– having regard to the Commission communication of 27 May 2020 entitled ‘Europe’s moment: Repair and Prepare for the Next Generation’ (COM(2020)0456), and to the accompanying legislative proposals,

– having regard to the Commission communication of 20 May 2020 entitled ‘A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system’ (COM(2020)0381),

– having regard to the Commission communication of 11 March 2020 entitled ‘A new Circular Economy Action Plan for a Cleaner and More Competitive Europe’ (COM(2020)0098),

– having regard to the Commission proposal of 4 March 2020 for a regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (European Climate Law) (COM(2020)0080),

– having regard to the Commission evaluation of 11 September 2019 of Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (SWD(2019)0329),

– having regard to the International Monetary Fund (IMF) Special Series note on COVID-19 of 16 December 2020 on tax policy for inclusive growth after the pandemic,

– having regard to the IMF policy paper of 10 March 2019 on corporate taxation in the global economy,

– having regard to the IMF policy paper of 1 May 2019 entitled ‘Fiscal Policies For Paris Climate Strategies – From Principle To Practice’,

– having regard to the interim conclusions of the mission to the EU of the UN Special Rapporteur on extreme poverty and human rights, Olivier de Schutter, which identified tax competition in the EU as one of the obstacles to reducing poverty[8],

– having regard to the United Nations Framework Convention on Climate Change (UNFCCC), to the Kyoto Protocol thereto and to the Paris Agreement,

– having regard to the Organisation for Economic Co-operation and Development (OECD) report of 19 May 2020 entitled ‘Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience’,

– having regard to the International Energy Agency report of 9 Oct 2020 on energy prices

[8] https://www.ohchr.org/EN/NewsEvents/Pages/DisplayNews.aspx?NewsID=26693&LangID=E

and taxes for OECD countries,

– having regard to the OECD report of 15 October 2019 on entitled 'Taxing Energy Use 2019: Using Taxes for Climate Action',

– having regard to the OECD report of 11 September 2019 entitled 'Tax Morale: What Drives People and Businesses to Pay Tax?',

– having regard to the OECD report of 18 September 2018 entitled 'Effective Carbon Rates 2018: Pricing Carbon Emissions through Taxes and Emissions Trading',

– having regard to European Environment Agency Report No 17/2016 of 6 September 2016 on environmental taxation and EU environmental policies,

– having regard to Rule 54 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2021),

A. whereas the fiscal system must be reformed if the state is to continue establishing the preconditions for inclusive and sustainable well-being;

B. whereas the economic recovery and the climate crisis have increased the need to mobilise more resources and re-evaluate the current taxation policies;

C. whereas tax morale is generally higher in countries that tax more heavily, which is evidence for the willingness of citizens to pay tax in return for effective public services[9];

D. whereas the 2011 EU flagship initiative for a resource-efficient Europe called for 10 % of total government taxation revenue to come from environmental taxation;

E. whereas small and medium-sized enterprises (SMEs) are particularly affected by the complexities of the tax system and tax compliance, disproportionately so compared to multinational enterprises (MNEs);

1. Considers that COVID-19 has given the EU a unique chance for a proper and holistic analysis of tax systems, how individual taxes interact and how they can be better coordinated to produce more flexible, resilient, green and fairer tax systems; recommends that Member States take this opportunity to build a new social-fiscal contract with citizens; underlines that this will help not only with raising revenues, but also with building trust and accountability between citizens and the state; stresses the need for coordination at EU level to avoid distortions and subsequent revenue losses;

Challenges facing our tax system from an economic, social and environmental perspective

2. Highlights that current tax systems, and the fiscal capacities of Member States, are already facing and will increasingly face severe shocks, such as the need for large public investments to sustain the economic recovery and the green transition, the ageing

[9] https://www.oecd-ilibrary.org/sites/0533eea9-en/index.html?itemId=/content/component/0533eea9-en

of our societies and the consequent reduction in the working-age population, the digital transformation of our labour markets, increased tax competition and the existing tax gap[10];

3. Underlines that taxation and tax collection have shifted the tax incidence from wealth to income, from capital to labour income and consumption, from MNEs to SMEs, and from the financial sector to the real economy; observes with concern this shift in the tax burden from more mobile to less mobile taxpayers, resulting in a lower average tax burden for the very income-rich[11];

4. Points out that technological progress and economic integration are making the taxpayers and tax bases of all types of tax increasingly mobile[12]; notes that this could reinforce the tendency to rely on immobile tax bases;

5. Observes that in spite of the numerous calls for shifting taxation from labour to pollution, revenues from taxes on pollution and resources in particular have remained very low, and yet they offer a potential source for increasing revenue through the application of the 'polluter pays' principle and are difficult to evade owing to the character of the tax base;

6. Notes that a significant amount of government funding is channeled through tax expenditure in the form of exemptions, deductions, credits, deferrals and reduced tax rates[13];

Post-COVID-19 taxation challenges

7. Notes that COVID-19 has demonstrated that the current disproportionate reliance on labour income taxes and social contributions, which puts the onus on continued high levels of employment and consumption to fund government spending and policies, is neither sustainable nor economically effective;

8. Notes with concern that the impact of the COVID-19 pandemic is highly regressive, with the poorest households being the most severely hit[14]; regrets that large companies that realise excess profits, such as e-commerce businesses and wealthy individuals who

[10] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en
[11] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en
[12] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en
[13] The tax-expenditure-to-GDP ratio is on average 4.5 percentage points in the EU; https://www.cepweb.org/reforming-tax-expenditures/;
IMF, 'Tax Policy for Inclusive Growth after the Pandemic', 16 December 2020, https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#fiscal
[14] OECD, 'Tax and Fiscal Policy in Response to the Coronavirus Crisis: Strengthening Confidence and Resilience', 19 May 2020, https://www.oecd.org/ctp/tax-policy/tax-and-fiscal-policy-in-response-to-the-coronavirus-crisis-strengthening-confidence-and-resilience.htm

realise significant capital gains through speculation, are often undertaxed;

Necessary remedies and improvements to the tax system

9. Highlights that environmental taxes have the potential to cover the need for additional revenue while supporting a resilient, competitive, sustainable and carbon-free economy; calls on Member States to consider expanding the tax base for environmental taxes through inter alia natural resource taxes, distance-based charges in the transport sector, fuel prices, and the taxation of deforestation, landfill, incineration, pesticides and fertilizers;

10. Underlines that environmental taxation should be accompanied by a general tax shift, such as to lower labour income taxes and social security contributions, to protect low-income households from regressive effects and to build more resilient, economically efficient and fairer tax systems[15]; notes that the specific tax design is at least as important as the tax type;

11. Warns that national budgets cannot rely on environmental taxes alone, as some of these revenues will fall as environmental harm decreases over time; calls on Member States to develop holistic tax reforms, shifting taxation from labour to not only pollution but also capital and wealth[16];

12. Calls on Member States to revise tax expenditure in all tax areas; calls on Member States to perform annual, detailed and public cost-benefit analyses of each tax provision;

13. Observes that there is also room for significant revenue and efficiency gains at tax administration level; notes that an effective and efficient tax administration, as well as a high degree of tax certainty, can encourage investment and foster competitiveness;

Actions the Commission should take

14. Welcomes initiatives taken by the Commission within the framework of the Green Deal; notes with concern that no clear and holistic guidance exists on how taxation should contribute to achieving the goals set out in the Green Deal and considers that the taxation system should therefore be reformed;

15. Calls on the Commission to publish a roadmap and toolkit to guide Member States in reforming their tax systems post COVID-19; calls on the Commission to launch a comprehensive evaluation, to be followed by an action plan, on existing and important distortions in all tax areas that could severely impede Member States in reforming their tax systems;

16. Welcomes the Commission's soon-to-be-published revision of the Energy Taxation

[15] IMF, 'Fiscal Policies for Paris Climate Strategies – from Principle to Practice', 1 May 2019, https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/05/01/Fiscal-Policies-for-Paris-Climate-Strategies-from-Principle-to-Practice-46826

[16] European Commission, 'Tax policies in the European Union' survey, 2020, https://ec.europa.eu/taxation_customs/business/company-tax/tax-good-governance/european-semester/tax-policies-european-union-survey_en

Directive[17]; calls on Member States to agree to close tax exemptions for aviation and maritime fuels, increase minimum rates and restore the level playing field; calls on the Commission to launch a proposal for a progressive European kerosene tax;

17. Calls on the Commission to propose an SME tax simplification package that aims to make tax compliance more streamlined and easier for small and medium-sized businesses;

18. Recalls on the Commission and the Member States to carry out regular gender impact assessments of fiscal policies from a gender equality perspective;

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19. Instructs its President to forward this resolution to the Council and the Commission.

[17] OJ L 283, 31.10.2003, p. 51.

EXPLANATORY STATEMENT

The emergence of the novel coronavirus in 2020 provided the setting for what has been a social, economic and health crisis unparalleled in recent history.

In the space of a few months, European countries showed that they could take hitherto unheard-of measures, in particular tax measures, with a view to alleviating the health crisis, even at the cost of sending unprecedented shockwaves through our economies. This experience demonstrates that we are capable of redirecting our social and tax systems towards new priorities.

The new tax system we are calling for, now under discussion here, must further three key purposes: firstly, ecological transition; secondly, reducing social inequalities; and, lastly, restoring competitiveness for our businesses, in particular SMEs.

Our tax systems must first further ecological transition. On the basis of current trends, the planet's carbon budget will be exhausted within 10 to 15 years. The carbon budget concept originated in the 'Global Warming of 1.5°C' report by the Intergovernmental Panel on Climate Change (IPCC). That is the leeway we have, in terms of carbon emissions, in order to limit global warming below a given threshold by comparison with preindustrial levels. The IPCC puts that limit at 1170 Gt CO_2, calculated as from 1 January 2018, in order to keep below 2°C.
The EU has no choice, therefore, and cannot be content with an ecological transition that is half-hearted and produces inequalities.

Tax systems must subsequently ensure fairer redistribution of wealth. The health crisis has facilitated windfall profits for a number of large multinationals; in addition, however, and in particular, it has impoverished the most vulnerable communities; and, in doing so, it has increased economic inequalities.

Because, lastly, of the declining competitiveness of our SMEs and the difficulties involved in ensuring a universal level playing field, thought must be given to how our businesses are taxed.

The next five years will be crucially important for tax policy. Changes in climate, technology and demography are transforming our societies and way of life, leaving EU citizens anxious about their own and their children's future. Furthermore, because of recent developments concerning taxation and tax collection, tax incidence has been shifted from wealth to income, from capital income to labour income and consumption, from multinationals to SMEs, and from the financial sector to the real economy. In the face of those challenges, solutions need to be found in support of a just transition to a sustainable economy.

The post-COVID-19 economic recovery process affords the EU a unique opportunity to conduct an appropriate and holistic analysis of tax systems. The analysis must factor in how individual taxes interact and how they can be better coordinated so as to produce tax systems that are greener, fairer and better targeted.

1. <u>Greater taxation of environmental nuisances</u>

At the heart of environmental taxation lies the aim of factoring the cost of environmental harms, or negative externalities, into prices for goods and services in order to steer individuals and businesses towards making more eco-friendly consumption and production choices.

Existing environmental taxation measures account for a modest share of national tax revenue. Although environmental aims are generally acknowledged as valid, when environmental taxation measures are implemented a range of factors must be taken into account, in particular competitiveness and fairness. The aim of that is to ensure that environmental taxation is sufficiently transparent to gain acceptance and so become an effective instrument in bringing about what is a necessary transition. That, then, is what this report will seek to promote, in order to develop environmental taxation, with a view to a genuine economic recovery that respects Europeans and the environment.

While international institutions such as the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Cooperation and Development (OECD) are calling for comprehensive realignment of taxation so as to focus more on environmental nuisances, and despite the urgency of this debate, the European Parliament has not yet adopted its position on tax change. That position is needed: Europe must also be a leader on tax matters.

Environmental taxes have the potential to bring about behavioural changes while supporting a fair, sustainable and carbon-free economy.

That is why we are proposing tangible solutions, including:

- the introduction of taxes on natural-resource extraction; the fact is that higher prices are essential in order to scale back the extraction of natural resources, promote recycling and foster the transition to a circular economy;
- the introduction of distance-based charges in the transport sector in order to reflect the costs of pollution and impact of congestion caused by different types of vehicle, and with a view to promoting the transition to zero-emission mobility;
- taxing deforestation, encouraging reforestation, better forest management and better protection of biodiversity;
- taxing fertilisers and pesticides, following the Swedish or Danish model, in order to reduce the use thereof;
- ensuring that prices of foodstuffs reflect their real costs in terms of use of limited natural resources, pollution, greenhouse gas emissions and other environmental externalities.

Virtually no account is taken of social inequalities in the European Green Deal despite the fact that they are a factor in aggravating eco-crises and crises themselves tend to reinforce inequalities. The Commission seems to favour an approach focusing on social investment and employment activation – notions typically associated with the concept of human capital and with the financial viability of social policies – but disregards the redistributive effects of environmental policies.

For that reason, the measures we propose must be accompanied by offsetting actions for the poorest households, such as a reduction in income tax or social security contributions. In future, in this connection, the Commission and the Member States should carry out impact assessments to determine the effect of environmental taxation on the poorest households.

2. Genuinely redistributive taxation

At the start of the 20th century, realising the objective of tax justice involved, in most countries, a plan for progressive taxation under which those who earned the most would be taxed more. For decades, however, tax avoidance strategies have been pursued by the most affluent at the expense of a heavier tax burden on the poorest households. Furthermore, non-progressive levies have increased – value-added tax first and foremost – which is why we are calling on Member States to improve the tax yield from tax on the income of natural persons, and the most affluent in particular, since that is the most progressive tax.

Lastly, technological progress and economic integration are making the tax bases for all types of tax increasingly mobile, which, given the degree of economic integration in the single market, has led to particularly intense tax competition in the EU. That competition could reinforce the tendency to rely on immobile tax bases to finance public budgets and/or lead to a possibly significant reallocation of mobile tax bases across jurisdictions.
Such a tendency undermines taxpayer morale and brings about serious inequalities for ordinary citizens, in particular women, the self-employed and SMEs. We therefore call for greater coordination between Member States, in a spirit of cooperation, in order to introduce or maintain taxes on mobile capital.

We also advocate reducing social security contributions as a proportion of labour costs in countries where there is a lack of competitiveness. To ensure that social protection is not impaired in the countries concerned, other revenue sources, such as those referred to above, should be drawn on. It is normal that social protection for citizens should be publicly funded, in particular from capital income. These factors must also be looked at in the light of population ageing.

Corporate taxes and wealth taxes also play a crucial role in reducing inequalities, since they ensure better wealth redistribution and make it possible to fund welfare provisions and social transfers. These are commonsense measures, and the gradual scrapping of wealth tax in Europe is regrettable.

3. Taxation that furthers SME competitiveness

Micro, small and medium-sized enterprises (SMEs) make up 99% of firms in the EU, accounting for two thirds of private-sector jobs and more than half of the total added value created by EU businesses. They need to be made more competitive and given better access to funding, especially as we emerge from the health crisis that has hit them hard. Carbon neutrality and the digital transition must be factored in to the strategies adopted to ensure a better environment for SMEs.

We think that SMEs are the forgotten casualties of the pandemic, in particular in connection with state aid schemes.

We regret the fact that SMEs are particularly affected by the complexities of the tax system – disproportionately so by comparison with multinationals. That is why we call on the Commission to carry out a systematic assessment of both the negative and positive potential relative impact on SMEs of these tax proposals, by comparison with multinationals, including with regard to the Common Consolidated Corporate Tax Base (CCCTB), digital taxation and energy taxation.

Multinationals need to be taxed more, too; that is especially true of the digital giants, which have done very well out of the health crisis. The time has now come for them to share in the common effort. Combating grand-scale tax evasion by large concerns is of the utmost importance.

An SME tax simplification package to make tax compliance more streamlined and easier for small businesses should be introduced. The package ought to comprise measures to make tax declarations less cumbersome and to encourage Member States and national tax authorities to digitise their processes and explore ways and means of switching to simplified electronic accounting, electronic declarations and even automatic declarations for SMEs.

We are also aware that SMEs may have difficulties in incorporating carbon pricing into their products. To our mind, the Commission should for that reason make sure that the Carbon Border Adjustment Mechanism includes well designed and automated arrangements for businesses, and in particular the smallest firms, to price carbon into their product chain.

In general, simplification is key to the issue of taxation: it will lead to more transparency, but also increased revenues, thwarting tax avoidance strategies in the process.

4. Conclusion

The health crisis has shown that the EU and its Member States can make a host of new tools available, in an efficient manner, to meet new priorities. Tax policy is one of those tools. The priorities for the next few years are well known: ecological transition, reducing inequalities, maintaining business competitiveness, and fair taxation.

This report outlines a new roadmap for building a taxation setup that is ecological, social and conducive to SME competitiveness.