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DRAFT REPORT

Role of tax policy in times of crisis
(2023/2058(INI))

Committee on Economic and Monetary Affairs

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CONTENTS

Page

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

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The European Parliament,

– having regard to its resolution of 16 September 2021 entitled ‘Implementation of the EU requirements for exchange of tax information: progress, lessons learnt and obstacles to overcome’[1],

– having regard to its resolution of 7 October 2021 on reforming the EU policy on harmful tax practices (including the reform of the Code of Conduct Group)[2],

– having regard to its resolution of 21 October 2021 entitled ‘Pandora Papers: implications for the efforts to combat money laundering, tax evasion and tax avoidance’[3],

– having regard to its resolution of 9 March 2022 on the draft Council directive amending Directive 2006/112/EC as regards rates of value added tax[4],

– having regard to the Commission proposal of 14 July 2021 for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism (COM(2021)0564),

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

– having regard to the Commission report of 28 June 2022 entitled ‘Taxation Trends in the European Union – 2022 edition’,

– having regard to the EU’s 2030 greenhouse gas emissions target, as endorsed in the European Council conclusions of 10 and 11 December 2020,

– 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 communication of 15 July 2020 on an action plan for fair and simple taxation supporting the recovery strategy (COM(2020)0312),

– having regard to Council Regulation (EU) 2022/1854 of 6 October 2022 on an emergency intervention to address high energy prices[6],

[1] OJ C 117, 11.3.2022, p. 120.
[2] OJ C 132, 24.3.2022, p. 167.
[3] OJ C 184, 5.5.2022, p. 141.
[4] OJ C 347, 9.9.2022, p. 232.
[5] OJ C 411, 27.11.2020, p. 38.
[6] OJ L 261 I , 7.10.2022, p. 1.

– having regard to the study entitled ‘The effectiveness and distributional consequences of excess profit taxes or windfall taxes in light of the Commission’s recommendation to Member States’, published by the Policy Department for Economic, Scientific and Quality of Life Policies of its Directorate-General for Internal Policies on 29 March 2023,

– having regard to the report of the Organisation for Economic Co-operation and Development (OECD) of 14 October 2021 entitled ‘Tax and fiscal policies after the COVID-19 crisis’,

– having regard to the OECD publication of 21 January 2021 entitled ‘Updated guidance on tax treaties and the impact of the COVID-19 pandemic’,

– having regard to the OECD report of 18 February 2022 entitled ‘Tax Policy and Gender Equality – A Stocktake of Country Approaches’,

– having regard to the OECD report of 12 April 2018 entitled ‘The Role and Design of Net Wealth Taxes in the OECD’,

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

– having regard to the OECD Model Convention on Income and on Capital 2017,

– having regard to the study entitled ‘Taxation in support of green transition: an overview and assessment of existing tax practices to reduce greenhouse gas emissions’, published by the Commission’s Directorate-General for Taxation and Customs Union on 6 January 2021,

– having regard to the study entitled ‘Study on the taxation of the air transport sector’, published by the Commission’s Directorate-General for Taxation and Customs Union on 2 July 2021,

– having regard to Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity[7],

– having regard to the Commission communication of 18 May 2022 on the REPowerEU plan (COM(2022)0230),

– having regard to the 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 opinion of the European Economic and Social Committee of 13 July 2022 on taxation of cross-border teleworkers and their employers[8],

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

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[7] OJ L 283, 31.10.2003, p. 51.
[8] OJ C 443, 22.11.2022, p. 15.

– having regard to the opinion of the Committee on Budgets,

– having regard to the report of the Committee on Economic and Monetary Affairs (A9-0000/2023),

A. whereas the economic recovery and the climate crisis increase the need to mobilise more resources and re-evaluate current taxation policies in the Member States;

B. whereas rising corporate profits account for almost half of the increase in inflation in the EU over the past two years, as companies increased prices by more than the spiking costs of imported energy;

C. whereas the growing trend of cross-border teleworkers, including digital nomads, has created difficulties for the taxation of labour income;

D. whereas over the years, the tax incidence has shifted from wealth to income, from capital income to labour income and consumption, from multinational enterprises (MNEs) to small and medium-sized enterprises (SMEs) and from the financial sector to the real economy;

E. whereas the EU Member States rely disproportionately on labour income taxes, social contributions and indirect taxes, such as the value added tax (VAT);

F. whereas women face implicit tax biases, as they typically rely more on labour income than capital income and spend a higher proportion of their income on consumption; whereas in the EU, secondary earners are predominantly women, earning on average about one third of the household's joint income;

G. whereas concerns have been raised about the potential double taxation of Ukrainian refugees who continue to perform their duties for their Ukrainian employer while working remotely from their host countries and about the lack of a common EU approach on this matter;

H. whereas VAT rates have been reduced across crisis-stricken sectors and on basic goods to dampen the negative effects of the COVID-19 pandemic and high inflation;

I. whereas the number of private jet flights in Europe increased by 64 % between 2021 and 2022; whereas carbon-dioxide emissions from private flights more than doubled in that period;

J. whereas between 2020 and 2022, the shipping industry generated as much profit as it had during the previous six decades combined; whereas it still faces low global taxation;

K. whereas SMEs are especially affected by the complexities of the tax system, in particular tax compliance, compared to MNEs;

Tax responses to ongoing crises and inflation

1. Highlights that tax systems and fiscal capacities in the Member States are facing severe shocks, an ageing population and challenges related to the green transition, the digital

transformation of their labour markets and the existing tax gap[9], all of which emphasise the need for large public investments in order to achieve a sustainable economic recovery, mobilise private capital and attract entrepreneurship;

2. Notes with concern that the impacts of the COVID-19 pandemic, the subsequent energy-price shock and inflation are highly regressive, with the poorest households being hit the hardest; observes that effective tax rates rose significantly for families with children, particularly at lower income levels[10]; notes with concern that gender inequality worsened during the pandemic;

3. Observes that COVID-19 financial aid in the form of tax deductions and tax credits had a limited impact on those in the greatest need, such as the unemployed, students, pensioners, unreported workers and part-time workers;

4. Observes with concern that inflation has been partially driven by companies increasing their profit margins, with, for example, Maersk's annual pre-tax income soaring from USD 967 million in 2019 to USD 30.2 billion in 2022;

5. Regrets the fact that that MNEs that realise excess profits in times of crisis and wealthy individuals who realise significant capital gains through speculation are often undertaxed;

6. Is concerned that the impact of temporary VAT reductions for end consumers was limited and was more pronounced for companies that increased their profit margins because of these reductions;

7. Regrets that, in the overall tax mix, environmental taxation remains underutilised in the EU; regrets that fossil fuel subsidies remain high; observes that, overall, the tax systems in the Member States are not responding to the climate and biodiversity crises and are contributing insufficiently to reaching the EU's climate goals;

8. Calls on the Member States to consider the 'COVID-19 precedent' for the taxation of cross-border workers as regards the tax treatment of Ukrainian refugees, which would entail disregarding the additional days spent in the host country for the calculation of the 183-day rule; recommends that the Member States' national tax authorities offer tax guidance to refugees and reduce administrative complications;

Resilient tax systems for the future

9. Considers that, in light of the many crises faced by the Member States, the EU should seize the opportunity to carry out a full-scale and holistic analysis of its tax systems;

10. Calls on the Commission to launch a comprehensive evaluation followed by an action plan on important areas for reform in order to strengthen the Member States' tax systems by making them future and crisis proof, including through the simplification of their national tax systems; calls for the Commission to come forward with a tax

[9] European Commission, 'Tax policies in the European Union – 2020 survey', Publications Office of the European Union, Luxembourg, 2020.
[10] OECD, 'Double blow for workers as inflation drives real wages down and labour taxes up', 25 April 2023.

proposal under Article 116 of the Treaty on the Functioning of the European Union to solve specific tax distortions in the Member States;

11. Calls on the Commission to assess the effectiveness of the temporary VAT reductions applied in Member States and to take measures if deemed necessary;

12. Highlights that environmental taxes and well-designed incentives have the potential to both cover the need for additional revenues and support a carbon-free economy; calls on the Member States to finally agree on the proposed revision of the Energy Taxation Directive[11];

13. Notes with concern that income inequality has increased in the last 30 years, with wealth being even more concentrated than income and capital gains being mostly realised by the top decile of the population; considers that the Member States should more effectively redistribute income and wealth through the taxation of capital gains, property and wealth; supports calls to start international-level negotiations to establish a progressive wealth tax, in the same vein as the OECD/G20 global tax deal for corporations;

14. Welcomes the adopted solidarity contribution in the EU; regrets, however, its limited scope and short time span; calls on the Commission to consider a permanent excess profit tax on all sectors, in light of the growing evidence that inflation is partly profit driven; believes that such taxes would curb the oligopolistic power of certain companies and boost competitiveness, while fighting inflation and raising revenue;

15. Regrets that the shipping industry is under-taxed and even excluded from the OECD/G20 Pillar Two agreement; supports the call for a multilateral initiative to tax international shipping activities from a profit and carbon perspective;

16. Calls for a multilateral initiative at the UN or G20 to introduce minimum carbon tax standards, including a minimum rate;

17. Observes with concern that private jet flights have exponentially increased in the EU in the past few crisis years; calls for an EU-wide prohibitive tax on private jets;

18. Observes that eliminating tax-related disincentives for female employment and unequal distribution of paid and unpaid work is one of the most critical objectives of tax policy from a gender-equality perspective; calls on the Commission to provide guidance on taking gender equality into account in tax policy design and tax administration; notes the need to improve the collection of gender-disaggregated data;

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

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[11] Commission proposal of 14 July 2021 for a Council directive restructuring the Union framework for the taxation of energy products and electricity (COM(2021)0563).

EXPLANATORY STATEMENT

Inequalities are exacerbated in times of crisis. The situation following the COVID-19 pandemic is no exception to this. Adding to this are Russia's war on Ukraine and the ensuing energy crisis, all of which caused high inflation and economic instability, negatively affecting our societies in the EU, as well as throughout the world in the form of a cost of living crisis, increasing inequalities, declining real wages and the deteriorating climate and biodiversity.

While European economies are slowly recovering through government support, many issues remain unaddressed and the role of taxation as a policy instrument to redistribute, raise revenue and steer behaviour remains underutilised.

This report focuses on some of the strongest negative effects that the COVID-19 crisis has had on societies in the EU, and on which solutions to these effects can be found in a more solid and just taxation system that not only responds to the current immediate crisis and inflation, but also delivers in facing the climate and biodiversity crisis among other things. Along the lines of some of the most recent studies, the report addresses some of the following points:

- the need for a reform of the taxation system if societies are to continue to provide the preconditions for inclusive and sustainable well-being;
- the economic recovery and the climate crisis increase the need to mobilise more resources and re-evaluate current taxation policies;
- SMEs are particularly affected by the complexities of the tax system and tax compliance compared to MNEs, and this worsens during times of crisis;
- women are impacted by an unfair and biased tax system, as they typically rely more on labour income, spend a higher proportion of their income on consumption and have fewer shares in MNEs;
- EU Member States rely disproportionately on labour income taxes, social contributions and indirect taxes, such as the value added tax (VAT), and this is again exacerbated during times of crisis.

While not everything can be fixed via tax reforms, a well-functioning and well-designed tax system can ensure healthy societies where income and wealth are fairly redistributed, work is valued in a carbon-free economy, explicit and implicit gender biases are tackled and governments have the means to respond to our common challenges.

While the EU needs large public investments to achieve a sustainable economic recovery and the green transition, as well as to mobilise private capital and attract entrepreneurship, it also needs to face challenges such as our ageing societies, the digital transformation of our labour markets and the existing tax gap.

The report proposes key elements that could be considered in a more holistic approach to taxation to avoid ad hoc adjustments in times of crisis, and to avoid inequalities being exacerbated by existing tax systems, with detrimental effects on our society and our planet.

Some of the important proposals in the report include:

- a permanent excess profit tax on all sectors, in light of the growing evidence that inflation is in part profit driven;

- an EU-wide prohibitive tax on private jets to account for high levels of carbon-dioxide emissions;

- a carbon tax ensuring the 'polluters pay' principle;

- a progressive wealth tax, similar to the OECD/G20 global tax deal for corporations.