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Sustainable Tax Policy Beyond the Tax Ratio in the EU as Core Element of a "Fiscal Union"

Workshop at the Austrian National Bank
„Toward a Genuine Economic and Monetary Union"

Margit Schratzenstaller **Vienna, 10 September, 2015**

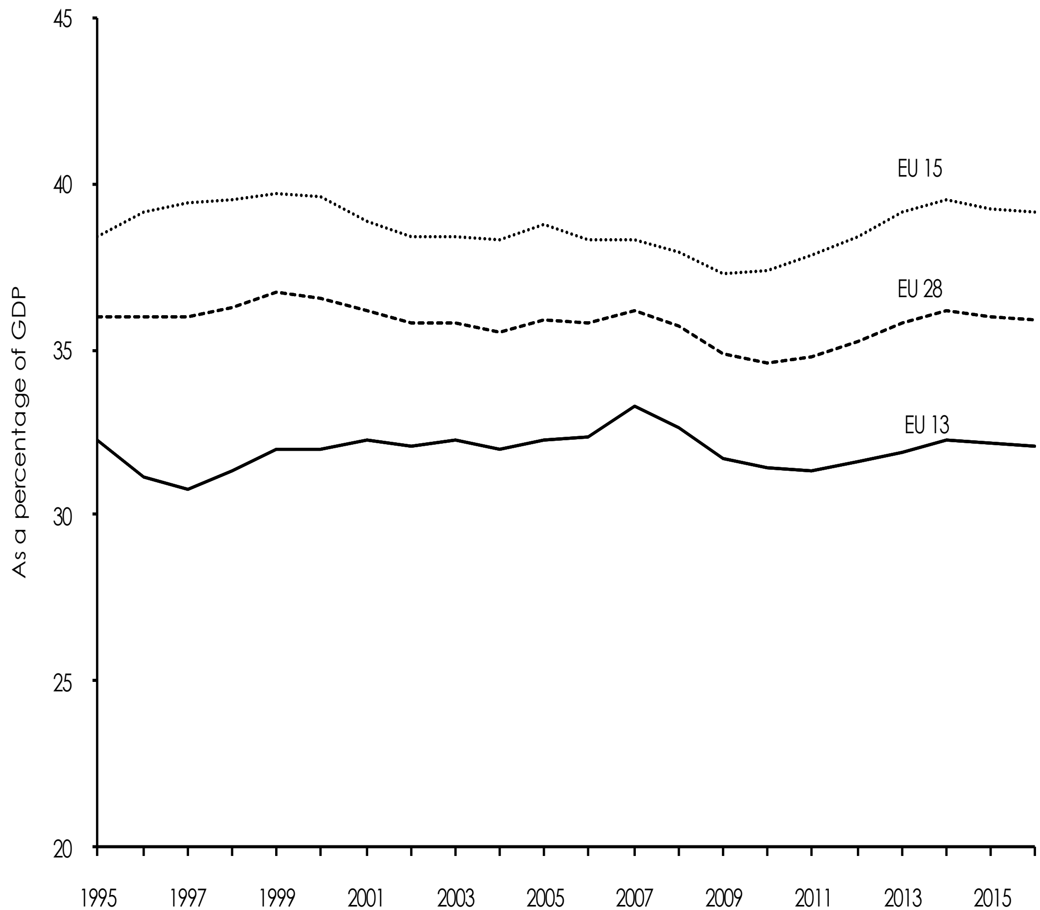
Motivation

- „Beyond GDP"-activities following Stiglitz-Sen-Fitoussi-Report of 2009 focus on outcome of total of (economic) policies on individual and societal well-being/welfare and on sustainability, single policy areas receive far less attention
- Particularly potential contribution of public sector activities and interventions to improve sustainability does not play a prominent role
(surprising considering high levels of government shares in EU!)

Motivation

- Aspects of sustainability not systematically taken into consideration in current academic and political debate on quality of public finances in general and of tax systems in particular – focus on growth-friendliness of tax systems, neglecting social inclusiveness and environmental sustainability (e.g., the OECD's "tax-and-growth-hierarchy")
- EU 2020 strategy/European Semester focus on growth-friendliness of tax systems
- Tax policy plays a minor role only in the debate about "Fiscal Union"

Sustainable tax policy „beyond tax ratio“

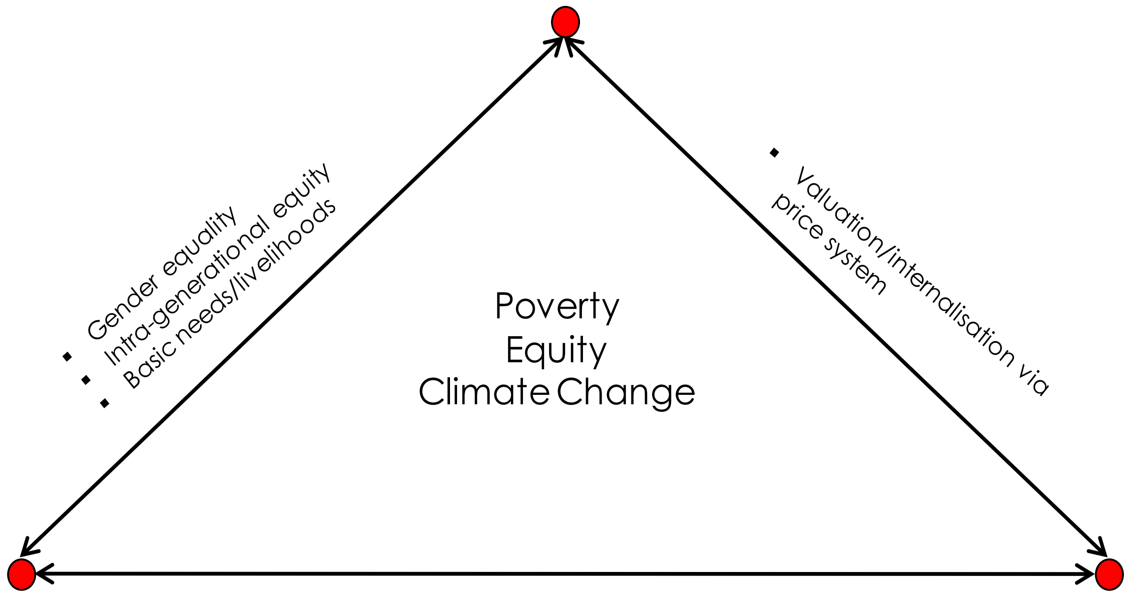


- **Tax ratios in EU rather constant and at considerable levels**
- **Large potential to contribute to sustainable development**
- **Rather high levels of tax ratios require to use tax policy to promote sustainable development instead of mainly relying on public expenditures**

WIFO Dimensions of a sustainable tax system

- Growth
- Efficiency
- Stability/resilience of financial sector
- Fiscal sustainability (sufficient revenue elasticity, prevention of tax base erosion)

Economic



- Inter-generational equity
- Values/culture

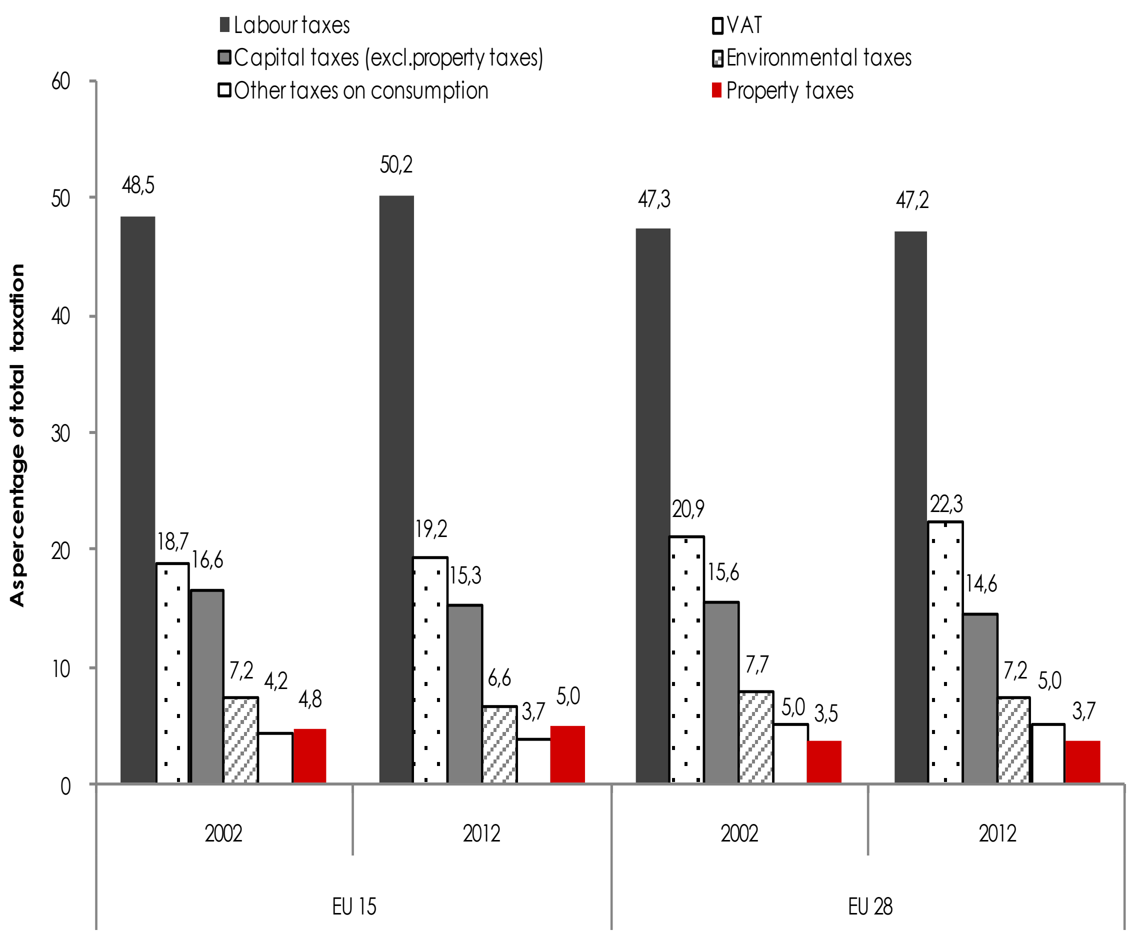
Social

- Inclusion
- Institutions/values (e.g. tax morale)
- Governance

Environmental

- Resilience /biodiversity
- Natural resources
- Pollution

Sustainability gaps in current EU tax systems



- Increasing share of taxes on labour and of VAT
- Declining share of taxes on capital, of environmental taxes and other sin taxes

Sustainability gaps in tax systems in an EU context

- Sustainability gap may i.a. be caused by restrictions for national tax policies due to increasing mobility of capital, goods and labour in EU
- Unilateral tax policies not enforceable effectively – calls for stronger EU-wide cooperation:
    - to secure financial basis to provide public goods and services on national level and European public goods
    - to create preconditions to effectively exploit steering potential and redistributive potential of taxes

⇒ forms of cooperation:

- coordination or harmonization of certain taxes
- introduction of European taxes

Areas of EU-wide tax cooperation

Closing sustainability gaps in EU tax systems by

- curbing harmful tax competition and tax avoidance within company taxation
- strengthening taxes with potential steering effects to internalise negative externalities by introducing EU wide minimum standards
- introducing EU taxes

Nominal and effective corporate tax rates in the EU

	EU 15	EU 28	EU 15	EU 28
	2013		Difference 2002-2013[1]	
	In percent		Percentage points	
Statutory corporate tax rate	27.0	23.2	–5.6	–5.8
Effective average tax rate (EATR)	24.8	21.1	–3.0	–1.9
Effective marginal tax rate (EMTR)	18.8	15.5	–3.7	–2.1
Implicit corporate tax rate[2,3]	19.0	.	–3.0	.
Corporate income tax as a percentage of GDP[2]	2.6	2.6	–0.7	–0.3

Source: *European Commission* (2013, 2014C). Arithmetic mean. – [1] EATR and EMTR: difference from 2005. – [2] Last available data: 2012. – [3] EU 15 excluding Germany, Greece, Denmark, Luxembourg.

Curbing harmful tax competition and avoidance within company taxation

Tax competition

- Leads to decreasing nominal and effective company tax rates
- May distort investment decisions
- Includes profit shifting
- Leads to a shift of tax burden from mobile to immobile factors (labour and consumption)

$\Rightarrow$ Endangers sustainability of tax systems:

- Profit shifting endangers fiscal sustainability, violates fairness considerations, undermines tax morale
- Shift towards labour taxes harms employment and has undesired distributional consequences

Curbing harmful tax competition and avoidance within company taxation

What to do?

- Creating transparency about and scaling back of special tax regimes for MNE
- Country-by-country-reporting of profits and tax payments
- Harmonisation of tax base (CCCTB), formula apportionment, two-tier minimum corporate tax rate (higher for “old”, lower for “new” member states)

Sin taxes in the EU

	EU 15	EU 28	EU 15	EU 28
	2012		Difference 2002-2012	
	In percent		Percentage points	
Tobacco taxes				
As a percentage of GDP	0,66	0,91	-0,07	+0,16
As a percentage of total taxation	1,76	2,64	-0,20	+0,51
Alcohol taxes				
As a percentage of GDP	0,25	0,33	-0,20	-0,14
As a percentage of total taxation	0,66	0,97	-0,45	-0,33
Environmental taxes				
As a percentage of GDP	2,58	2,58	-0,22	-0,17
As a percentage of total taxation	6,60	7,21	-0,59	-0,51

Source: *European Commission* (2014C). Alcohol taxes: taxes on beer, wine, sparkling wine, brandy and intermediate products. France: latest available data for 2011.

Framework for effective steering taxes

What to do?

- Increase of minimum tax rates accounting for energy content and CO_2 emissions for energy taxation (including regular adjustment to inflation) – overhaul of energy taxation directive necessary!
- Introduction of minimum tax rates for air traffic (kerosene tax, flight ticket tax, VAT on kerosene)
- Increase of minimum tax rates for alcohol taxes (current rates date back to 1992)
- Simplification of tobacco tax regime, initiatives against tobacco tax evasion

EU taxes as alternative to tax coordination

⇒ Creating fiscal equivalence at EU level (EU taxes to finance European public goods)

⇒ Allows levying taxes that cannot be enforced effectively at national levels

Evaluation of options for EU taxes

	Regional attribution	negative cross-border externalities	mobility of tax base	short-term volatility	long-term yield (revenue elasticity)	visibility	equity of gross burden at national level
Financial Transaction Tax	+	+	+	-	+	-	-
Financial Activities Tax	+	+	+	-	+	-	-
Departure/Flight Duty Tax	-	+	+	+	+	+	-
Value Added Tax	-	-	-	-	+	+	?
Energy Levy/ CO_2 Levy	-	+	-	+	+	+	?
Corporate Income Tax	+	-	+	-	+	-	-

Source: *Schratzenstaller* (2013). - ... + speaks rather in favour of being used as an EU tax. ... - speaks rather against being used as an EU tax.

Contribution of tax policy at national and EU level to a sustainable growth and development path in the EU:

- **FP7 EU Project WWWforEurope (www.foreurope.eu) (4/2012 bis 3/2016)**
- **FP8 EU Project FairTax (3/2015 bis 2/2019)**