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
• „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!)
• 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
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

**Poverty**

**Equity**

**Climate Change**

- Gender equality
- Intra-generational equity
- Basic needs/livelihoods

- Valuation/internalisation via price system
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
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

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<tr>
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</thead>
<tbody>
<tr>
<td>Statutory corporate tax rate</td>
<td>27.0</td>
<td>23.2</td>
<td>-5.6</td>
<td>-5.8</td>
</tr>
<tr>
<td>Effective average tax rate (EATR)</td>
<td>24.8</td>
<td>21.1</td>
<td>-3.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>Effective marginal tax rate (EMTR)</td>
<td>18.8</td>
<td>15.5</td>
<td>-3.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>Implicit corporate tax rate&lt;sup&gt;2,3&lt;/sup&gt;</td>
<td>19.0</td>
<td>.</td>
<td>-3.0</td>
<td>.</td>
</tr>
<tr>
<td>Corporate income tax as a percentage of GDP&lt;sup&gt;2&lt;/sup&gt;</td>
<td>2.6</td>
<td>2.6</td>
<td>-0.7</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

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)

⇒ 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

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</thead>
<tbody>
<tr>
<td><strong>Tobacco taxes</strong></td>
<td></td>
<td></td>
<td>In percent</td>
<td>Percentage points</td>
</tr>
<tr>
<td>As a percentage of GDP</td>
<td>0.66</td>
<td>0.91</td>
<td>-0.07</td>
<td>+0.16</td>
</tr>
<tr>
<td>As a percentage of total taxation</td>
<td>1.76</td>
<td>2.64</td>
<td>-0.20</td>
<td>+0.51</td>
</tr>
</tbody>
</table>

| **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                       |

What to do?

- Increase of minimum tax rates accounting for energy content and CO2 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
Introduction of EU taxes

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
Introduction of EU taxes

## Evaluation of options for EU taxes

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

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Regional attribution</th>
<th>negative cross-border externalities</th>
<th>mobility of tax base</th>
<th>short-term volatility</th>
<th>long-term yield (revenue elasticity)</th>
<th>visibility</th>
<th>equity of gross burden at national level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Transaction Tax</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial Activities Tax</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Departure/Flight Duty Tax</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td>Energy Levy/ CO₂ Levy</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>?</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Contribution of tax policy at national and EU level to a sustainable growth and development path in the EU:

- FP8 EU Project FairTax (3/2015 bis 2/2019)