CORPORATE TAXATION IN A GLOBALISED ERA

SOCIAL EUROPE DOSSIER

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PREFACE

The taxation of business has rapidly risen up the global political agenda. Several factors have lain behind this trend, after decades in which it became widely assumed that footloose capital would simply be deterred by 'excessive' corporate taxation, which consequently should fall on much less mobile labour—or simply fall, at the expense of purportedly 'inefficient' public services better delivered in any event by corporate contractors.

First, it is now evident that deference to capital in this regard did not just mean this or that state would not suffer disinvestment. On the contrary, a global 'race to the bottom' on corporate taxation ensued, severely undermining the world's tax base—as the need for investment in global public goods, notably a viable ecosystem, became all the more pressing. This was facilitated by opaque multinational accounting systems, which allowed, for instance, transfer pricing and synthetic intellectual-property valuations to ensure that company profits were massively concentrated in low-tax states.

Secondly, the salting away of liquid capital in the world's secrecy jurisdictions became less hidden from public view, due to the capacities of modern, globally-collaborative, big-data investigative journalism, such as reported in the 'Panama Papers' and 'Lux Leaks'. The huge extent of this wealth capture defied any claim that reduced capital taxation in the end 'trickled down' to the world's poor via investment and job creation.

Indeed, it became apparent, thirdly, that light corporate taxation was creating perverse incentives towards merely rent-seeking behaviour by shareholders and chief executives, as dividend payments and remuneration packages flourished for what came to be called the '1 per cent'. Thomas Piketty famously showed in his *Capital in the 21st Century* how what had been confiscatory rates of tax on capital at the end of the second world war, particularly in Europe, were replaced by a world in which 'r>g', with spiralling inequality the inevitable outcome.

This trend was magnified by the increasingly high-risk speculation in derivative products associated with an ever-more financialised capitalism—especially in its Anglo-American variant—in which companies 'too big to fail' operated as if entitled to an implicit public subsidy should they bet the house and lose, leading to the emergence of 'Occupy Wall Street' and its offshoots.

Finally, the digitalisation of capitalism in the 21st century created at vertiginous speed a small number of Californian mega-corporations, benefiting from such first-mover economies of scale and network effects that they rapidly became not just national but global monopolies, able thereby to extract huge rents while desertifying large parts of the 'ecosystem' of small and medium enterprises in sectors from media to bookselling.

This series thus looks at the various proposals which have emerged or are emerging to deal with this challenge, whether and how they are viable and, if so, how they can be implemented, on at least a European and preferably a global scale.

1

CAPITAL AND IDEOLOGY

INTERVIEW WITH THOMAS PIKETTY

Thomas Piketty tells Robin Wilson (*Social Europe*) how wealth and power can be transferred from capital to workers and citizens.

Robin Wilson: If *Capital in the Twenty-First Century* made you famous for one thing, it was the equation 'r>g': the rise of inequality in recent decades has been linked to the excess of profit accumulation over economic growth and so to huge rents for shareholders and chief executives. Redressing such inequality then implies taxing heavily capital assets as well as high incomes. But in *Capital and Ideology* you raise a problem: a feature of globalisation has been the transnationalisation of wealth and the failure of nation-states to keep up—even in terms of the data they collect. So what is to be done?

Thomas Piketty: We have to rethink the way we organise globalisation. Free capital flow is not something that came from the sky—it was created by us. It was organised via particular international treaties and we have to rewrite these treaties. The circulation of investment is, of course, not bad in itself but it has to come with an automatic transmission of information about who owns what and where. It has to come with some common tax system, so that the most mobile and most powerful economic actors have to contribute to the common good—at least as much a proportion of their wealth and of their income as the middle class and the lower socio-economic groups.

Otherwise, we have created a very dangerous system, where a very large part of the population feel that they are not gaining from globalisation—they are not gaining in particular from European integration—and that people at the top, large corporations or people with high wealth and high income, get a better deal because the system in a way was organised so that they can just click on a button and transfer their wealth to another jurisdiction and nobody can follow them. It doesn't have to be this way.

This is a very sophisticated international legal system, in particular in Europe, which has made it possible that you accumulate wealth by, in effect, using the public infrastructure of a country—the public education system and everything—and then you can go somewhere else and nothing has been planned so that we can follow you. This has to be changed.

I voted yes in the Maastricht treaty referendum in 1992. I was very young but still I am part of the many people who maybe did not realise at the time that this would lead us to a very unfair system. Some other people realised very well what they were pushing for: we should have more competition between countries so that countries will make an effort to be more 'efficient' and not tax too much.

To some extent, I can understand this argument. Except that, at the end of the day, this is a mistrust of democracy—this attempt to go around democratic choices by forcing the rules of the game to deliver certain types of distributional outcomes, mainly by making it possible for the most mobile and most powerful economic actors to avoid taxation in effect. This is a very dangerous choice for globalisation and for democracy and it is putting our basic social contract under a very dangerous threat.

Let's focus on the European Union. We are up against a race to the bottom in corporate taxation in Europe as individual states have pursued beggar-my-neighbour approaches, rather than collaborating to match collectively the power of capital. One of the features of the current EU architecture, to which you have alluded, is the constraint of unanimity operating hitherto against action at EU level to reverse this race to the bottom. So how can it be reversed?

We cannot wait for unanimity to change the rule of unanimity. So at some point we need to have a subset of countries, ideally including the largest countries—Germany, France, Italy, Spain, as many countries as possible—which decide to sign a new treaty between them whereby they will take a majority-rule decision on a certain number of tax decisions: to create a common tax on the profits of large corporations, on large carbon emissions and on high-income, high-wealth taxpayers.

This will be done through majority rule among these countries. Ideally, I would like this to be done through a new European assembly made up of national parliament members—a little bit like the German-French parliamentary assembly created last year as part of the new bilateral treaty between France and Germany. Which, by the way, illustrates that it's perfectly possible for two countries or more to stay in the European Union—France and Germany are still in the EU, of course—and to have a bilateral or trilateral or whatever treaty, in order to create some special co-operation for countries that want to move ahead into more political and fiscal integration.

I very much hope that a subset of countries will put this proposal on the table—and not only make this proposal but say 'Okay, six months from now, 12 months from now, this will come into force and we will have majority-rule decision-making to have this recovery plan with this new common tax system' and so on. I very much hope that most of the 27 countries that are currently members of the EU will join, but probably what will happen is that at least for a certain number of years some countries will choose to remain aside from this mechanism.

This is what happened with the creation of the euro, of course. I'm not saying this is perfect—I would prefer all 27 countries to be part of the full process of integration. I would also like Britain to come back and I think at some point this will happen. But if we wait for all countries to agree before moving in this direction we are going to wait forever. So it's very important that a subset of countries moves in this direction—if we are always waiting for unanimity to make progress, at some point the cost of unanimity is enormous.

We've seen that recently with the new recovery plan, which has finally been adopted. But as we all know it has been adopted under the threat that if some countries put in their veto then there would be a separate agreement between 25 countries instead of 27. You cannot rule a large federation forever in this manner. It is not working because, in effect, it takes too much time.

If we decide in three months, in six months, that the recovery plan was too small—which is very likely to be the case—what are we going to do? Are we going to play this game another time, forcing unanimity to happen behind-closed-doors without public parliamentary deliberation, without majority-rule decision-making? We have to move to something else.

In *Capital and Ideology*, you paint a fairly unforgiving picture of the evolution of the EU, as effectively the only quasi-federal entity in the world to define itself so narrowly in terms of market-clearing measures rather than social policy or a political community. This has, you claim, fuelled alienation from the European project among *les classes populaires*, as their socio-political aspirations have not been addressed—as evidenced by the Brexit referendum, the earlier referendum defeats on the proposed EU constitution, or indeed the controversy over Maastricht which you mentioned. How can citizen trust in Europe be rebuilt?

Let me first say that I am a European federalist—I believe in Europe. Before describing everything that should be improved, it's important to remember that European nation-states have been able to build, especially in the decades after World War II, the best social-security system in the world, the least unequal, social-market economic system in the world. This is a great achievement. I am not here to say that everything is bad in Europe—that would be ridiculous. We have built a social system which, by and large, is the least unequal in history, and this is a huge achievement, but this achievement is fragile.

For a long time we thought that it was possible to have the welfare state within each nation-state and then the EU would just be in charge of enforcing the common market and the free flow of goods, services and capital. We realise today that this is not sufficient and if we don't harmonise tax legislation—and, more generally, if we don't have some common public policy to regulate capitalism and to reduce inequality—then indeed there is a risk that the divorce between the European project and *les classes populaires* at some point will just destroy the project itself.

I am very shocked by the fact that, as I show in *Capital and Ideology*, if you look, referendum after referendum—whether it is in Britain, France or Denmark—wherever you have a referendum over Europe, it's always the bottom 50 or 60 per cent of income, wealth or education groups which vote against Europe and only the top 10, 20 or 30 per cent which vote for Europe. This cannot be a coincidence.

The explanation according to which the bottom 50 or 60 per cent group are so nationalist, or they don't like internationalist ideas, is just wrong. There are many examples in history where, in fact, the more disadvantaged socio-economic groups are more internationalist than the elite.

It entirely depends on the political project—the political mobilisation around internationalist ideas—that you present. The problem is that over time the European project has been viewed more and more as being built in the interest of the most mobile and most powerful economic actors. This is indeed very dangerous.

With the Covid crisis, we have an opportunity to try to show to the public opinion of Europe that Europe can be here to reduce inequality. But this will require some deep change in the way we conduct economic and tax policy.

Who is going to repay the large public debt? For now we put everything on the balance sheet of the European Central Bank but at some point we will have to discuss who is going to pay for that. There are solutions which, in fact, come also from the history of Europe itself. Let me remind you that after World War II, in the 1950s, many countries—including in particular Germany—invented some very innovative ways to reduce large public debt, including very progressive tax on very high-wealth individuals.

Germany in 1952 put in place a very ambitious, exceptional, progressive wealth tax, which applied between 1952 and the 1960s: very high-wealth taxpayers had to pay a very large amount of money to the German treasury. This was very successful in the sense that this policy not only helped reduce public debt—it paid for public investment, public infrastructure, and it was part of the very successful postwar growth model.

We are going to have to find something similar in the future, except that now we cannot do it alone. It cannot be just Germany or France or Italy. We will have to have some common tax policy.

Europe has to show its citizens that Europe can mean solidarity—Europe can mean asking more of those who have more and, in particular, of very high-wealth individuals who have more than €1 million or €2 million in assets. They should make an exceptional contribution in the coming years, to repay some of the Covid debt. Some proposals have been put on the table in various countries, including in Germany—very similar in fact to what was actually done in Germany in 1952, when it was a big success.

At some point, we will have to add this up at a transnational level. Through the kind of European assembly I was describing earlier—it could be Germany and France but it would be better if it was Germany, France, Italy, Spain, Belgium, as many countries as possible—we will have to change the course of Europe, so as to convince the middle class and lower socio-economic groups of Europe that Europe can work for them and Europe can be here to reduce inequality, and not only be in the interest of the wealthiest citizens.

Continuing that point about *les classes populaires*, you have some very striking sociological graphs in *Capital and Ideology* where you show how the support base for the parties of the left in Europe, which was historically among *les classes populaires*, has shifted dramatically in recent decades, so that they have come to represent the better-educated and even to some extent the better-off in Europe.

And, in the process, you say what you call the 'classist' politics of the past risks being substituted by the identitarian politics of nativist movements in the Europe of today. How has such a dramatic transformation come about and can it be corrected?

The biggest part of the explanation has to do with the fact that we have stopped discussing the transformation of the economic system. We have stopped discussing reducing inequality between social classes. For many decades now, we have been telling the public that there is only one possible economic system and one possible economic policy, that governments cannot really do anything to change the distribution of income and wealth between social classes—and that the only thing that governments can do is control their borders, control identity.

We should not be surprised that 20 or 30 years later the entire political conversation is about border control and identity. This is largely the consequence of the fact that we have stopped discussing the transformation of the economic system.

That's partly due, of course, to the gigantic historical failure of communism, which has contributed to a general disillusion towards the idea of changing the economic system. I was 18 at the time of the fall of the Berlin wall in 1989 and I can remember, in the 1990s, I was much more a pro-market believer than I am today, and so I can very well understand the feeling that came after the fall of communism.

But not only has this gone too far. We have forgotten that on the other hand you have all the many achievements of social democracy, including progressive taxation of income and wealth, including co-determination in companies, including social-security systems. This big success of the 20th century can be taken further in the future. New thinking about a new form of economic system—more equitable, more sustainable—is the discussion we now need to have.

In the book, you conclude with your version of an alternative, which you describe as 'participatory socialism'. It involves a progressive tax on all wealth—the proceeds of which, you say, should go to a capital endowment for every 25-year-old, as well as the extension of existing co-determination arrangements in Germany and elsewhere to change the balance of corporate power. You're saying this would be a way to transcend capitalism without repeating the Soviet nightmare, so can you finally elaborate on that?

The system of participatory socialism I describe at the end of *Capital and Ideology* some people would prefer to call social democracy for the 21st century. I have no problem with this but I prefer to talk about participatory socialism. In effect, this is the continuation of what has been done in the 20th century and what was successful. This includes equal access to education, to health, to a system of basic income, which to some extent is already in place but needs to be made more automatic; educational justice needs to be more real and less theoretical, as it is too often the case.

Regarding the system of property, which has always been the core discussion about socialism and capitalism, the proposal I am making relies on two main pillars: one is co-determination, through change in the legal system and the system of governance of companies, and the other part is progressive taxation and the permanent circulation of property.

Regarding co-determination, let me remind you that in a number of European countries—including Germany and Sweden, starting around the 1950s—we've had a system where 50 per cent of seats on the governing boards of large companies will go to elected representatives of employees, of workers, even if they don't have a share in the capital of the company, and the other 50 per cent of voting rights will go to shareholders.

Which means that if, in addition, the workers and employees of the company have a capital share of, say, 10 or 20 per cent, or if some local or regional government, as sometimes happens in Germany, has a share of 10 or 20 per cent in the capital stock of the company, then in effect this will shift the majority, even if you have a private shareholder who has 70, 80 or 90 per cent of the capital. So this is quite a big change, as compared to the usual rule of one share, one vote, which is supposed to be the basic definition of shareholder capitalism. In France, Britain or the United States, or in other countries where this system was not extended, shareholders don't like this idea at all.

But, in the end, it was pretty successful in Germany and Sweden. I don't want to idealise the system but it has to some extent made it possible to involve workers in the long-run strategy of companies, in a way that is not perfect in Germany or Sweden but is a bit better at least than in France, Britain and the US.

We can go further in this direction, so the first pillar of participatory socialism I propose is to say 'Okay, let's extend this co-determination system to all countries'—all countries in Europe to begin with but all countries in the world, ideally. Let's also extend it to small companies and not only the large companies where it applies in Germany. In Sweden it applies to a bit smaller companies but the very small companies are excluded. Let's apply it to all companies, no matter the size, and let's go further by assuming, for instance, that with the 50 per cent of the vote going to shareholders, a single shareholder cannot have more than 10 per cent of the vote in large companies—say of over 100 workers.

The general idea is that we need to share power. We need more participation by everybody. We live in very educated societies, where lots of people—lots of wage-earners, engineers, managers, technicians—have something to contribute to decision-making in the company.

When you are in a very small company where there's only one individual who put in the small capital to create the company and hires one or two people, you can see where you want the majority of the vote with the one individual, the founder of the company. But, as the company gets bigger and bigger, you need more deliberation, and you cannot be in a system where one individual, because he or she had a good idea or was very lucky at the age of 30, is going to concentrate all the decision-making power at the age of 50, 70, 90—including in a huge company with thousands or tens of thousands of workers.

So that's the first pillar of participatory socialism. We start from the co-determination system, as it has been applied, and we try to extend it.

The second pillar is progressive taxation. Again, we start from what has been experimented with during the 20th century. Some countries, like the US, for instance, went pretty far in the direction of progressive taxation: the top income tax rate at the time of Roosevelt was 91 per cent and on average between 1930 and 1980 it was over 80 per cent.

And in fact it was very successful, in the sense that productivity growth at this time was much higher than it has been since the 1980s. So the view that was put at the time of Reagan—that in order to get more innovation, more growth, you need more and more inequality at the top—is simply wrong if you look at the historical evidence.

The big lesson from history that I push in my book is that economic prosperity historically comes from equality and, in particular, equality in education. The US was the most educated country in the world in the middle of the 20th century, with 80-90 per cent of the generation going to high school, at a time when it was maybe 20-30 per cent in Germany, France or Japan. You had this huge educational advance and the US was also the most productive economy.

The top income-tax and top inheritance-tax rates were divided by two by Reagan, but in fact the *per capita* national-income growth rate was also divided by two in the three decades after the Reagan reform. So I propose large-scale progressive taxation—not only of income and inherited wealth but also of wealth itself and on an annual basis, so as to avoid excessive concentration of wealth at the top.

And indeed so as to pay for a minimum inheritance for all: I propose €120,000 at the age of 25. This is still quite far from complete equality. In the system I propose, the people who today receive zero euro, which are basically the bottom 50 or even 60 per cent of societies, would receive €120,000, and the people who today receive €1 million, after the tax and everything, would still receive €600,000—which is less than €1 million but a lot more than €120,000.

So we are still very far from equal opportunity, which is a theoretical principle that people pretend they like but in practice—when it comes to concrete proposals—many people have a problem with. We need however to go in this direction. This proposal is actually very moderate—we could go further.

I am not saying this platform should be applied next week in every country. This is a general view of how the economic system should be transformed in the long run. The system I am describing, which I call participatory socialism, of course is different from the welfare or social-democratic capitalism we have today. But it's very much a continuation of the transformation that already took place over the past century.

The welfare or social-democratic capitalism we have today is very, very different from the colonial capitalism that we had in 1900 or 1910, where the rights of property owners—at the world level, the colonial level, but also the domestic level—were much, much stronger. You could fire a worker when you wanted, oust a tenant when you wanted. This has nothing to do with the system we have today. So there is a long-run process towards more equality, towards justice. And this comes with a more balanced distribution of economic and social rights between owners and non-owners, with the regulation of property and the transformation of property relations.

This evolution will continue. It has already been very strong in the past century and it will continue in the future. This is a discussion we need to reopen—to shift the political conversation away from identity politics and border control towards economic and social progress and transformation.

Thomas Piketty is professor of economics at the Paris School of Economics and author of *Capital and Ideology* and *Capital in the Twenty-First Century* (both Belknap Press).

2

CORPORATE TAXATION—MOMENTUM IS BUILDING

NICHOLAS SHAXSON

When a multinational company based in one country trades or invests overseas, fundamental tax questions arise. For example, which country gets to tax the profits from that investment? For the last century, countries have agreed some basic principles about how multinationals get taxed on their cross-border activity and a powerful international tax system has developed, overseen by the Organisation for Economic Co-operation and Development, the club of rich countries.

Unsurprisingly, this system has tended to favour the interests of rich countries. And everyone knows that multinationals use tax havens to escape tax: estimates from the International Monetary Fund and Tax Justice Network range between $250 billion and $600 billion a year in corporate tax-haven losses, with lower-income countries especially hard hit.

For the last seven years, the OECD has been trying to patch up this leaky system, with a project launched in 2013 called Base Erosion and Profit Shifting (BEPS). In 2019, it finally conceded that the pillars contained huge cracks, especially in a modern digital economy. That same year, the then IMF managing director, Christine Lagarde, called the system 'outdated [and] especially harmful to developing countries' and urged a 'fundamental rethink'.

Covid-19 is fast widening those cracks. Some 400 million people, disproportionately women, have lost their jobs as a result of the coronavirus, Oxfam estimated in September, and up to half a billion could be pushed into poverty by the time it is over. Meanwhile, just 32 of the world's most profitable companies are expected to make $110 billion more in 2020 than they did in previous years.

Shining opportunities

Now, as the international tax system starts to crumble, civil society needs to push hardest, to ensure that the new world tax order is favourable to ordinary people in countries rich and poor. Several shining opportunities present themselves.

The first involves corporate-tax transparency. When the Tax Justice Network was launched in 2003, it pushed for 'country by country reporting' (CbCR). The problem was that multinationals could lump together their financial affairs—revenues, profits, tax payments and so on—into a single global figure (or set of regional figures). It was impossible to unpick those to work out what was happening in each country or how much profit was being shifted into tax havens. CbCR would require companies to break down (and publish) their numbers for every country where they operate, so tax authorities and the public could work out what was going on.

CbCR was called utopian back in 2003 but it is now accepted by the OECD, the IMF and governments around the globe. There are still many gaps to fill but nobody seriously opposes the basic principle of transparency.

'Arm's length'

A second issue is the 'arm's length' method, a pillar of the century-old OECD consensus on taxing multinationals. Affiliates of a multinational mutually transact across borders and the company's accountants routinely manipulate the prices of those transactions to push costs into high-tax countries (reducing tax bills there) and profits into tax havens, where effective tax rates are low or zero. The method tries to tackle such shenanigans by saying these transactions must happen at the going, 'arm's length' market rate. But especially in the digital age it is often impossible to nail down what proper rates are, so corporations and their accountants can run rings round the system.

The tax-justice movement has been pushing for years for a radically different system—unitary tax with formula apportionment. This takes a multinational's total global profits and shares out that pie in slices to the various countries where it operates, using a formula based on employees and sales in each place. Each country taxes its slice at its own rate. A one-person booking office in the Cayman Islands only gets allocated a minuscule slice of its multinational owner's global profits, so Cayman's zero per cent tax rate hardly matters. Partial versions of this system have been used for years in many jurisdictions, including many American states.

Until recently, multinational lobbying ensured that the OECD forcefully rebuffed any discussion of this formula approach. But in 2019 its proposals opened the door, at least a chink—allowing for a tiny portion of multinational profits to be treated in this way. Even on the OECD's own estimates, the impact would so far be negligible: for instance the Netherlands, one of the world's biggest corporate-tax havens which receives some $100-200 billion in corporate profit-shifting each year, would see a maximum gain of just $23 million. This may be peanuts—but the fact that the OECD admits the formula method, at last, is the foot in the door for which the tax-justice community has been waiting.

Politically attractive

Other politically attractive possibilities are popping up. One of the pillars of the new BEPS proposals is to impose minimum taxes on multinationals' global incomes—this, if combined effectively with a unitary/formula approach, could raise very large sums. It deserves targeted support, to ensure that it happens and in the right way.

Another opportunity is 'excess profits taxes', which several scholars and some non-governmental groups advocate. One version, smaller but easier to implement, would target pandemic profiteering: compare a multinational's profits before the pandemic with those afterwards and tax the excess at high rates—say 75-90 per cent. (This has been done successfully before, in the context of world wars.)

A bigger version, more technically and politically challenging, would recognise that, through monopolisation and other forms of market-rigging, multinationals have been earning excess profits since long before the coronavirus. According to a May 2020 study by Jan De Loecker and Jan Eeckhout, multinationals have increased their mark-ups from 10 per cent above marginal costs in 1980 to 60 per cent today. These staggering unproductive rents should be taxed, again at very high rates, on a unitary / formula basis.

A further big change brewing is that lower-income countries are starting to flex their muscles on global tax. Although the OECD did officially bring them into its BEPS negotiations in a so-called 'inclusive framework', the impact of this was muted.

Some countries are now pushing for the United Nations to wrest some power away from the OECD in international tax discussions, since the UN is a more globally representative body. Its high-level panel on Financial Accountability, Transparency and Integrity (FACTI,) launched in early 2020, is already making waves, pushing for a variety of improvements, including not just unitary tax and stronger CbCR but also a UN tax convention to better reflect the needs of lower-income countries.

Biggest boost

Alongside all this, momentum is building in civil society behind an obvious measure which could constitute the biggest single boost to corporate-tax collection of them all—getting governments to allocate more resources to their tax authorities. In an era of neoliberalism, tax authorities have been under sustained attack from anti-state ideological forces dedicated to reducing government, as the aggressive US anti-tax lobbyist Grover Norquist put it, to 'the size where I can drag it into the bathroom and drown it in the bathtub'.

States afflicted by the pandemic are running huge deficits and will need to raise large sums, especially from those multinationals and rich individuals most able to afford it. Tax inspectors pay for themselves, many times over.

For instance, a study of mining taxation in Africa found that Tanzania's revenue authority had created an international tax unit with ten staff which, at a staff cost of about $130,000 a year, had raised about $110 million since 2012. In the United Kingdom, the Public and Commercial Services Union has estimated that each tax inspector dedicated to compliance brings in some £650,000 a year net of staff costs, while a 'special investigations unit' tackling complex tax cases has yielded 450 times its cost.

Overall, firm proposals are afoot and there is a nascent political will to redesign the broken international tax architecture. Now is the time to ensure this momentum is channelled in the right direction.

Nicholas Shaxson is author of *The Finance Curse: How Global Finance Is Making Us All Poorer* and *Treasure Islands: Tax Havens and the Men who Stole the World*. He is a journalist, campaigner and world expert on tax havens and financial centres. His writing has appeared in *Vanity Fair*, the *Financial Times*, the *Economist* and many other outlets.

3

REFORM OF GLOBAL TAXATION CANNOT WAIT

JAYATI GHOSH

As the pandemic has raged around the world, releasing yet another wave of infections and associated deaths, economies have slumped, resulting in massive losses of livelihoods. Material insecurities are increasing sharply, with more uncertainty, discord and strife.

Yet, in the midst of all this, some corporations and individuals are doing better than ever—profiting immensely from the very forces that have laid everyone else low. And these same companies and wealthy individuals continue to pay in taxes much less relatively than others, sometimes close to nothing.

The massive inequalities inherent in the global economic system have been evident for a while but they have been laid bare and intensified over the past year. The international tax architecture continues to aid and abet increasing inequality, because of anomalies which enable multinational companies to avoid paying the same rate of taxes local companies pay. It also allows very rich individuals to avoid paying even minimal wealth taxes in their own countries of residence, by stashing away money in tax havens and via other illicit financial flows.

We can no longer afford to allow this. This is not only because of concerns about the massive inequality it encourages, the injustice and the absence of level playing-fields for all taxpayers. Most important, right now, is that governments across the world—even those which have used central-bank liquidity to increase spending immediately—must make even larger expenditures in coming days.

They will have to deal with the pandemic and its effects on economies, support and provide social protection to those devastated by economic collapse, address and cope with the climate crisis and try to meet the United Nations sustainable development goals, which have been hugely set back. No country can afford the luxury of coddling its richest residents and large corporations by allowing this tax avoidance and evasion—and the international community cannot continue to look the other way as vast sums are denied to governments and their citizens.

Stopping the bleeding

Stopping this bleeding in practical terms is not impossible—or even that difficult. Some solutions have been apparent and in the public domain for a while. The Independent Commission for the Reform of International Corporate Taxation (of which I am a member) has suggested a set of comprehensive and fundamental reforms which incorporate basic principles of efficiency and fairness. These include enabling every country to tax the global profits of multinational companies (MNCs), by apportioning the profits according to a formula based on sales, employment, users (for digital companies) and capital, and with a global minimum tax rate of 25 per cent.

This idea mimics a system already applied in the United States, which is very federalist and allows states to have different tax policies. The beauty of this is that it completely removes any incentive that MNCs have to engage in base erosion and profit shifting (BEPS)—artificially classifying profits to low-tax jurisdictions to avoid paying higher taxes in countries where they actually operate.

Obviously, this is something most effectively done with international co-ordination, so ideally it should be organised under the aegis of the UN. Instead, the task was handed over to the Organisation for Economic Co-operation and Development, which since 2013 has been working on a strategy for stopping global corporations from shifting profits to tax havens and ending the ‘race to the bottom’ in corporate-tax rates.

But the experience has been disappointing, to say the least. The OECD is a relatively closed club of mostly rich countries. The BEPS Inclusive Framework sought to include 135 countries and tax jurisdictions, but these were included only after the more important decisions on strategy were taken, and most countries are still excluded from effective and equal participation.

A successful strategy to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax system necessarily requires both ambition and simplicity. Both have been lacking in the OECD process, possibly because of successful lobbying by large MNCs.

As a result, the OECD's proposals have been very delayed, very complicated (and therefore easier for corporations to game) and promoted only very marginal reform, which would barely skim the surface. Finally, even these modest and not so meaningful measures have not yet been finalised, despite years of deliberations.

Unilateral moves

So how can governments and their citizens act, in the face of such inaction? Waiting for an international agreement is no longer desirable, as the need for public expenditure to support health, incomes and employment becomes ever more pressing, and eventually these will have to be financed through taxes and other revenues. So governments should move unilaterally to introduce interim measures to ensure that profitable companies which have benefited from the pandemic—in particular those in the digital and tech sectors—contribute to a just recovery.

ICRICT has suggested five measures governments can undertake:

- apply a higher corporate-tax rate to large corporations in oligopolistic sectors with excess rates of return;
- set a minimum effective corporate-tax rate of 25 per

cent worldwide to stop base erosion and profit shifting;
- introduce progressive digital-services taxes on the economic rents captured by multinational firms in this sector;
- require publication of country-by-country reports by all corporations benefiting from state support; and
- publish data on offshore wealth to enable all jurisdictions to adopt effective, progressive wealth taxes on their residents and prevent or reduce illicit financial flows.

As long as wider reforms are blocked by leading OECD members, these measures will support governments in mobilising much-needed additional revenue. In addition, unilateral measures such as these serve to bring effective pressure to bear on the international community for genuinely fair, international tax reforms.

With a change of guard at the White House, it is possible to be more hopeful than previously that some of this pressure will have positive effects. There is clearly broader public support for measures that would ensure that the rich (whether large MNCs or high-net-worth individuals) are taxed fairly and at similar rates to other companies and people.

This is clearly a *carpe diem* moment—not only because the stakes are so high and the costs of inaction so great, but because such measures are more feasible than ever.

Jayati Ghosh taught economics at Jawaharlal Nehru University, New Delhi for 34 years and will join the University of Massachusetts at Amherst in January 2021. She is executive secretary of International Development Economics Associates and a member of the Independent Commission for the Reform of International Corporate Taxation.

4

BREAKING THE IMPASSE ON CORPORATE TAXATION

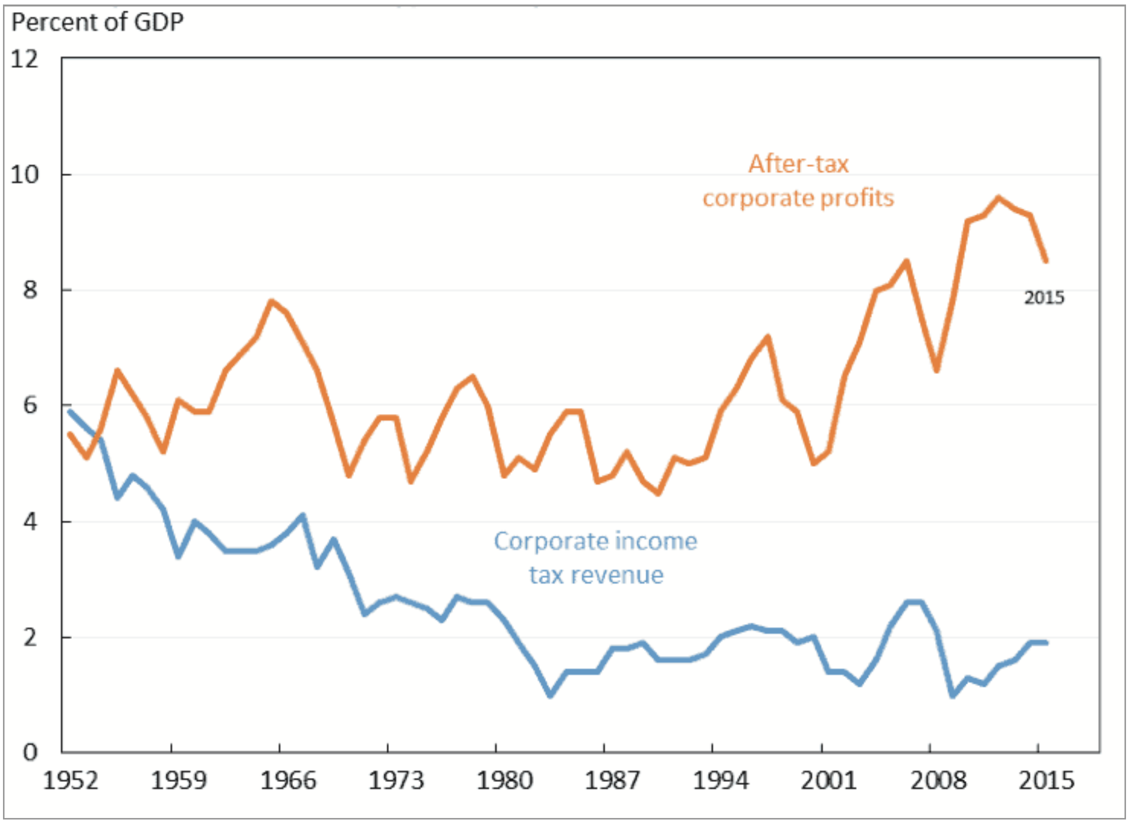
LIINA CARR

The Covid-19 pandemic has placed hitherto unimaginable pressure on public finances throughout Europe and around the world.

Yet while workers struggle to live on what assistance they can secure, multinational companies are able to manipulate their tax liabilities to make the lowest possible payments, and governments are squabbling over their responses. Hundreds of thousands of Europeans are now demanding fair and just tax rules.

Trade unions in Europe are pressing harder than ever for an *effective* minimum corporate tax rate—of at least 25 per cent—to shore up public budgets and promote social justice, as well as unitary taxation of multinationals and full transparency in company accounting methods.

According to the Tax Justice Network, over $427 billion (€358 billion) are lost as a result of international corporate tax abuse and private tax evasion each year. The graph below shows how corporate profits have soared in the United States since the war, while tax revenue has slumped.



Corporate profits and corporate tax revenues in the US by year.
Source: Economic Policy Institute

Lack of co-ordination encourages countries to compete through ever-lower tax rates to attract multinational business. International companies can select the most favourable tax regulations they find in one jurisdiction and shift their profits away from countries with higher rates, regardless of where their real activities take place. Since shifting profits is an expensive endeavour, it is the richest companies that are making the biggest gains.

The labour movement has long demanded an end to the under-taxation of international businesses and unfair and mutually harmful ‘tax competition’. And yet, even in the midst of the pandemic, corporate taxation divides countries, preventing any constructive international framework emerging.

Locked in negotiations

The 37 members of the Organisation for Economic Cooperation and Development, responsible for two-thirds of the world’s gross domestic product, have been locked in negotiations since 2018 on a minimum corporate-tax rate and a global end to tax-base erosion (the sought-after ‘GloBe’ agreement), as well as the taxation of businesses with huge global revenues and intangible assets but little or no ‘physical establishment’. The taxation challenges of the digitalisation of the economy require profound and enduring responses.

While disagreement rages, even among European Union member states, on the taxation of digital companies, the European Trade Union Confederation demands urgent and decisive action on a common corporate-tax rate for Europe. Although the European Commission is not a negotiator in the OECD talks, it must come off the fence and set standards at EU level. This would have a snowball effect, paving the way towards a vital global consensus.

Member states’ corporate-tax rates vary hugely (see table below). In 2019, France imposed the highest effective average rate, of 33 per cent, compared with just 9 per cent in Bulgaria. But what concerns trade unions is that in specific negotiations companies can secure rates as low as 2 per cent. Ireland, Luxembourg, the Netherlands and some eastern-European countries have been known to offer comparable incentives.

Ireland’s refusal in 2017 to reclaim €13 billion in back tax from Apple, as instructed by the commission, is just one high-profile example of how ruthless tax competition is starving society of much-needed funds. Harmful tax competition has caused a decline in global average rates from 35 per cent in the 1990s to 21 per cent in 2018.

	2019	Ranking
EU28	19.7	NA
Belgium	25.0	6
Bulgaria	9.0	28
Czechia	16.7	18
Denmark	19.8	13
Germany	28.9	3
Estonia	13.9	24
Ireland	14.1	23
Greece	26.6	4
Spain	30.1	2
France	33.4	1
Croatia	14.8	21
Italy	24.6	7
Cyprus	13.4	25
Latvia	16.7	18
Lithuania	12.7	26
Luxembourg	21.8	10
Hungary	11.1	27
Malta	25.3	5
Netherlands	22.5	9
Austria	23.1	8
Poland	16.6	20
Portugal	21.4	11
Romania	14.7	22
Slovenia	17.3	17
Slovakia	18.7	16
Finland	19.6	14
Sweden	19.4	15
United Kingdom	20.2	12

Effective average tax rates (%), large corporations in non-financial sector (computed at corporate level, for average asset composition and funding sources) Source: European Commission

Corporate taxation has a profound impact on workers. Aggressive 'tax planning' corrodes wages, jobs and conditions and increases inequality. It deprives the workforce of a fair share of the profits generated, often redirected to tax havens through convoluted accounting strategies. The wage share of GDP has been falling around the world since the late 1970s, as companies syphon off capital. Furthermore, multinationals hide revenues through complex artificial structures such as shell and letter-box companies. This not only minimises tax bills but also damages accountability and workers' rights.

As corporations pay less tax, the burden shifts on to consumers and workers themselves, weakening public services and social protection. This is all the more indefensible in the midst of the Covid-19 crisis, when governments are incurring huge debts to ensure economic survival. Companies which use tax havens should be barred from receiving bailout funds intended to support struggling businesses.

As signalled, trade unions are demanding a unitary taxation system, whereby each multinational's profits are calculated on a global scale and payments shared out between the countries where its real economic activity—measured by assets, employment and sales—has taken place. We are calling for a global end to tax-base erosion and a level playing-field for corporate taxation.

Effective minimum

The ETUC is also opposed to any threshold for the enforcement of a minimum tax rate. Some governments have mooted a €750 million turnover requirement but this would enable the great majority of multinationals to escape further obligations.

It could be argued that any effective minimum is better than none—a rate of 12.5 per cent has been mentioned in the OECD talks. But there would be a dangerous risk of such a low floor turning into an unacceptable ceiling.

The ETUC is pressing for an effective minimum tax rate of 25 per cent. There is no point in aligning a minimum rate with that of tax havens or countries with harmful practices. Exceptions should be limited to the strict minimum, for example institutions with a social purpose such as pension funds. Patent boxes—used by some countries to encourage research and development by taxing patent revenues at a lower rate than other commercial incomes—must be fully included within the scope of reform.

Last but by no means least, Europe needs greater tax transparency—the most effective weapon for risk assessment and identifying fraud and tax avoidance. This means country-by-country reporting of revenues and profits, with each company office accountable to its national authorities. Reporting currently kept confidential by companies and authorities must be open to scrutiny.

Trade unions must be able to study and assess company tax declarations, to understand the employer's financial situation, its position in multinational structures and the scale of investment in low-tax jurisdictions—not least to prepare for collective bargaining and wage claims. While the European Parliament has long approved this principle, the Council of the EU has been blocking it for years.

Demanding action

With the German EU presidency again failing to put a proposal for country-by-country reporting on the Competitiveness Council agenda for a vote this week, some 228,000 people have signed a petition and many more have taken part in a Twitter campaign demanding action.

The commission needs to pursue fair taxation as part of its programme for recovery following the pandemic, including country-by-country reporting, unitary taxation and a minimum corporate tax rate of at least 25 per cent. The ETUC has proposed the setting up of a European Agency for Tax Coordination, which would also combat tax fraud.

A rethink of tax policy within the EU is vital to public investment in infrastructure, education, healthcare and social protection. We urgently need decisive tax reform, carried out in consultation with stakeholders, including trade unions, to close loopholes and combat evasion.

Liina Carr was re-elected confederal secretary of the European Trade Union Confederation at the ETUC Congress in 2019.

5

TAX HAVENS: PATIENCE IS RUNNING OUT

EVA JOLY

Did people really hope that the club of rich countries that is the Organisation for Economic Co-operation and Development (OECD) would be able to offer the world solutions to end tax abuses by multinational corporations? Seven years after being mandated by the G20—the world's top 20 economies—to overhaul the international tax system, the institution recently revealed a series of proposals which are as complex as they are disappointing.

At the beginning of the year, there was a semblance of optimism: for the first time, countries agreed that companies should pay taxes based on where their customers, factories and employees are located—not where they rent a mailbox in tax havens. But by the end of the negotiations, this seemed to be much ado about nothing.

That's no surprise. The OECD had certainly sought to legitimise its claim to speak for all by creating an 'inclusive framework' involving developing countries. However, of the 137 nations sitting around the negotiating table, only the G7—

those home to the major multinationals and their lobbying teams—had a voice. As a result, the solutions advocated by the OECD would hardly limit financial flows to tax havens and the scarce resources recovered would mainly benefit rich countries.

Services struggling

Already scandalous, this is intolerable at a time when the world is ravaged by the coronavirus epidemic. Public services everywhere are struggling to cope with the emergency, after decades of budget cuts. Yet states lose more than $427 billion every year to tax havens—as revealed in *The State of Tax Justice 2020*, a report just published by the Tax Justice Network, Public Services International and the Global Alliance for Tax Justice.

Estimating the loss of resources caused by corporate and individual tax abuse country by country, and the consequences for healthcare spending, this research is chilling. Globally, these diversions correspond to 9.2 per cent of health budgets, equivalent to the salaries of 34 million nurses. The impact is even more devastating in developing countries, where the shortfall represents 52.4 per cent of health spending.

The United Kingdom, for example, loses almost $40 billion annually. That's equivalent to taking $607 from every member of the population every year. Above all, it represents 18.72 per cent of the country's health budget, which would pay for some 840,000 nurses' salaries.

Minimum tax

Hospitals need more resources. The education system needs more resources. Small businesses, on the verge of bankruptcy, need more resources. And someone will have to foot the bill. That's why it's urgent to get these funds from tax havens. And since the OECD is unable to impose reform, it is time for the European Union to move forward, including by introducing an effective minimum tax on corporate profits.

At the Independent Commission for International Corporate Tax Reform (ICRICT)—of which I am a member, along with economists such as Joseph Stiglitz, Thomas Piketty and Gabriel Zucman—we calculate that this rate should be at least 25 per cent. Even the president-elect of the United States, Joseph Biden, is advocating a global minimum of at least 21 per cent. To defend a lower level—12.5 per cent, as some states argue—would in fact fuel the 'race to the bottom' in corporate taxes, causing a further fall in revenues.

Of course, there is strong opposition within the EU itself, for one simple reason: if we readily point the finger at the small islands of the Caribbean, it is to make people forget that Europe has its own tax havens. The departing UK, together with its network of Overseas Territories and Crown Dependencies—often referred to as its 'spider's web'—is responsible for 29 per cent of the $245 billion the world loses to corporate tax abuse every year, according to *The State of Tax Justice*. And we have further examples inside the EU. Every year, for example, the Netherlands steals the equivalent of $10 billion from its EU neighbours. And it is not alone: Luxembourg, Ireland, Cyprus and Malta do the same.

Formidable weapon

This group of states has been blocking reform for years, taking advantage of the unanimity required for decisions on tax issues. The president of the European Commission, Ursula von der Leyen, has however a formidable weapon with which to move forward. Article 116 of the Treaty on the Functioning of the European Union, on the equality of the rules of competition among states—violated by this fiscal dumping—would make it possible to circumvent the unanimity requirement and put an end to the plundering of fiscal resources by certain states.

Von der Leyen has the political strength to take such an initiative and should be supported by Germany, which holds the presidency of the European Council until the end of the year and is one of the countries most affected by corporate tax abuses. If time is too short, Portugal, which takes over the presidency in January, can also act.

A commission initiative would be ideal, especially as it would have a global impact, since Europe is a key market for multinationals. But if this does not eventuate, France, Germany, Spain, Italy and other countries in the region could move on together, thanks to the enhanced co-operation mechanism which can be set in train by a group of at least seven. This has enabled, for example, the creation of a European Public Prosecutor's Office.

At a time when the second wave of the coronavirus is bringing the whole of Europe to its knees—and with the threat that 'Brexit' could create an even more powerful tax haven—the *status quo* is more unacceptable than ever.

Eva Joly is a member of the Independent Commission for International Corporate Tax Reform (ICRICT) and a former member of the European Parliament, where she was vice-chair of the Commission of Inquiry into Money Laundering, Tax Evasion and Fraud.

6

OECD TAX PLANS: FAILURE IS NOT AN OPTION

DOMINIK BERNHOFER AND MICHAEL LANGER

European Union countries will face tough decisions in 2022, as they clean up public finances heavily affected by the Covid-19 crisis and the deepest recession since World War II. They will need to avoid the mistake, following the global financial crisis, of self-defeating consolidation policies which were devastating for economic recovery and job growth. And there is a high road to closing the fiscal gap—via increasing revenues from multinational corporations.

A global crackdown on corporate tax dodging and avoidance would kill three birds with one stone. First, it would increase public revenues. Secondly, it would *not* disturb recovery, since higher tax would only be obligatory for a few multinationals, which could afford it without cutting jobs or investment. Thirdly, it would respond to the public demand for more tax justice and fairness.

The good news is that plans to reform international corporate tax rules, developed under the auspices of the Organisation for Economic Co-operation and Development, provide the perfect basis for that strategy. The bad news is that Covid-19 not only makes a political deal founded on the OECD tax plans more necessary but also more difficult.

This was reflected in the decision in mid-October by the OECD / G20 'Inclusive Framework' of more than 135 countries to postpone the deadline for agreement to mid-2021. Nonetheless, failure is not an option, since there are no alternatives on the horizon.

Two pillars

Deriving from concern about 'base erosion and profit shifting' by multinationals, the OECD plans are known by the acronym BEPS 2.0. They rest on two pillars.

Pillar one tackles digital-service companies and is intended to shift taxing rights to countries in which they have markets. Currently companies are taxed where they are physically present. In the future, according to the base-case scenario of the OECD, 20 per cent of residual profits would be taxed in markets where revenues are generated, irrespective of any physical presence.

This would apply to companies with an annual turnover of more than €750 million, if they offer automated digital services (such as online platforms and 'social media') or are consumer-facing (such as car manufacturers). This would mean, for example, that Google would have to pay taxes in European countries, while German car-makers would have to pay taxes in the United States and elsewhere. Ultimately, it is a question of reallocating the right to tax among countries. As expected, pillar one has triggered a very heated political debate, with the US particularly concerned about the tax payments required of 'its' digital companies.

Pillar two introduces a minimum tax rate, along the lines of US minimum taxes (the Base Erosion Anti-abuse Tax and Global Intangible Low-Taxed Income). The OECD's base-case scenario, a good indicator of the state of negotiations, assumes that all large corporations would have to pay at least an effective minimum tax rate of 12.5 per cent, irrespective of where they were located. There are small carve-outs but no real loopholes. The political prospects for pillar two are better because the US is on board.

Revenue projections

Even though pillar one entails a considerable amount of profits moving into exchequers where companies have markets, the budgetary consequences are low, since taxing rights would be reallocated but not augmented. According to OECD projections, global corporate-tax revenues would only rise by 0.2-0.5 per cent.

In contrast, pillar two would have a massive impact on the tax revenues of all countries. The base-case scenario indicates revenues would increase by $70 billion. Adding in pillar one and the minimum tax rates in the US would take that to $100 billion, a rise of about 4 per cent.

Breaking this down geographically, industrial countries would be the main beneficiaries in absolute terms. Nonetheless, developing and emerging economies would benefit most in relative gains in corporate-tax revenues.

The OECD does not foresee any negative effects on investment or employment. Higher capital costs and rising administration expenses for companies would be offset by better capital allocation (due to reduced tax competition) and greater legal certainty. If the base-case scenario were implemented, global gross domestic product would shrink by a negligible 0.1 per cent.

A no-deal scenario, on the other hand, would have devastating effects on investment and jobs, reducing global GDP by 1 per cent or more. The conflict between the US and France over the French digital-service tax provides a foretaste of the looming danger of widespread tax and trade wars.

Clear step

The proposals from the OECD are far from perfect. This applies, above all, to pillar one, which increases complexity and compliance costs tremendously and should be revised in the direction of unitary taxation of companies, with a formula apportionment of revenues by country. On the other hand, the base-case scenario is a clear step in the right direction, with few alternatives available.

Relocating the negotiations to the United Nations—as some non-governmental organisations have urged—would take enormous time and make agreement even more difficult. A no-deal scenario with national tax measures would have high costs for the economy, ultimately borne by workers and employees. Progressives should aim for the best possible solution based on the OECD tax plans—especially in calling for a higher minimum tax rate.

To proceed more quickly, a possible solution would be the decoupling of the two pillars. The minimum tax is less controversial and doubly effective. It militates against tax dodging by corporations and tax competition among countries. The OECD's impact assessment shows not much interaction between the two pillars—nothing would be lost if they were introduced separately.

The minimum tax could be the quick win necessary to give governments the breathing space they need to refresh their attempts to reform taxing rights and digital taxation more fundamentally. The #makemultinationalspay campaign tries to bring the common goal of an effective minimum tax rate to the forefront and gives European trade unions a stronger voice in the fight for tax justice and fairness.

In any event, an agreement on BEPS 2.0 would not be the end of the fight for fair business tax rules—only the beginning.

Dominik Bernhofer is an economist and head of the tax department in the Chamber of Labour, a trade union think tank in Austria.

Michael Langer is an economist and research assistant at the Chamber of Labour, a trade union think tank in Austria.

7

HOW CAN THE EU ACHIEVE A FAIR DISTRIBUTION OF THE TAX BURDEN?

SUSANNE WIXFORTH

Tax policy in the European Union is based on a fundamental and as yet unresolved tension between the common internal market and 27 different tax systems. The internal market guarantees the free movement of capital but tax enforcement essentially ends at national borders. At the same time, the member states are driven into organised tax competition, which undermines their fiscal sovereignty.

This leads to revenue losses in a period of unprecedented global challenges, from climate change to the Covid-19 crisis. The current fiscal patchwork is not an option to make Europe strong in the world. The principle of fair taxation must become the standard in the EU.

Active assistance

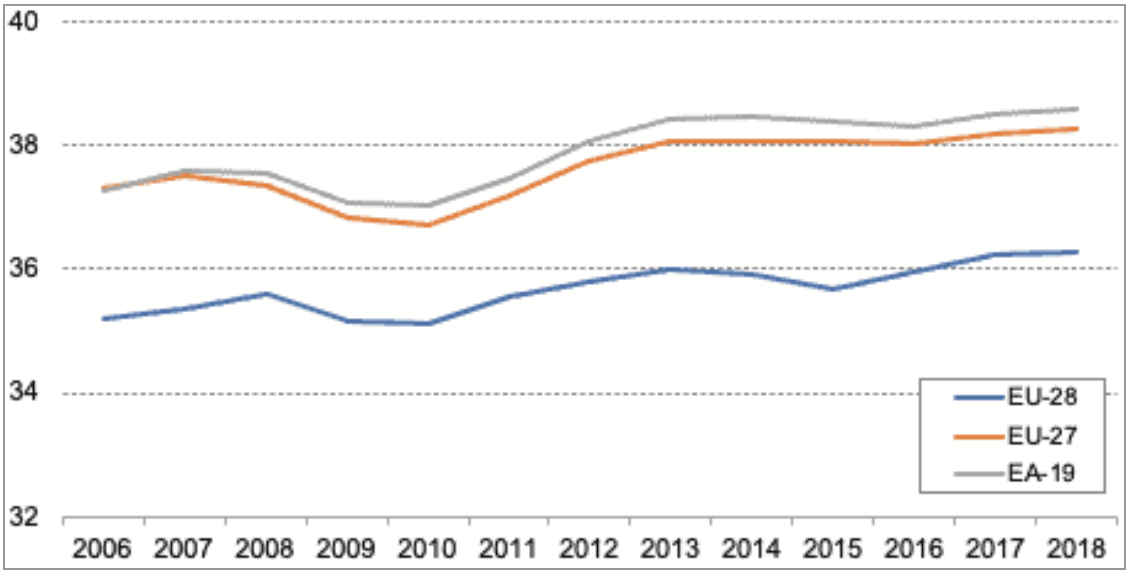
In the first quarter of 2020, five member states already had a national debt greater than their gross domestic product, including two large founding states, France and Italy. At the same time, global corporations are withdrawing from tax collection: in 2011, Apple made profits of €16 billion in Europe yet paid just €50 million in taxes to the Republic of Ireland, where all these profits were booked.

This ‘tax bargain’ was made possible thanks to the active assistance of the Irish tax authorities, which provided Apple with an attractive tax-saving scheme. To add insult to injury, in July a ruling by the Court of Justice of the EU relieved Google of an additional tax payment of €13 billion which the European Commission had directed in 2016.

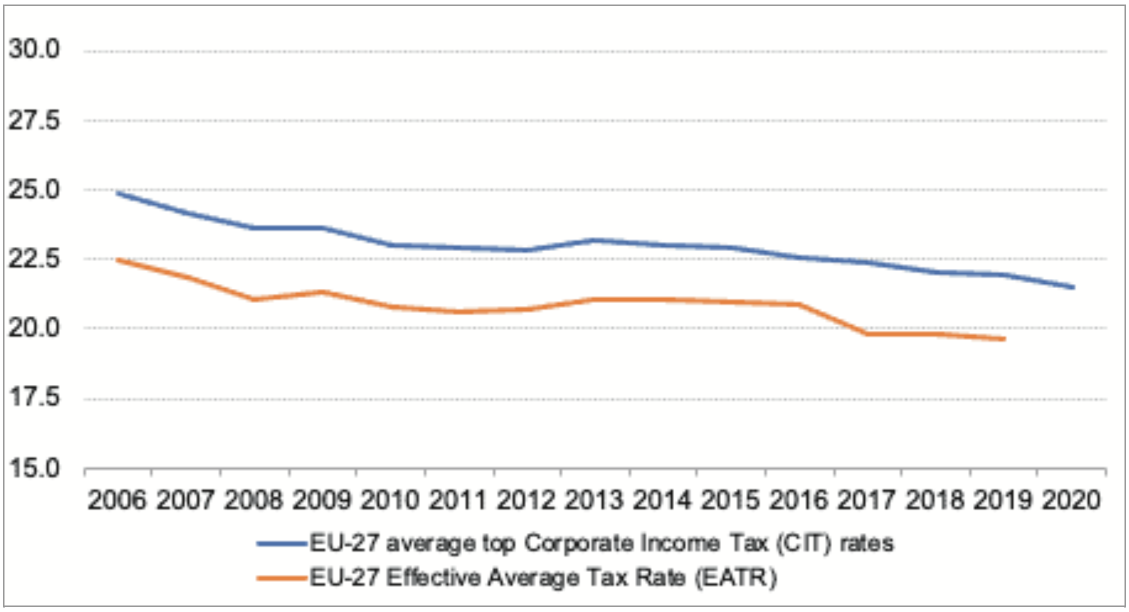
Amazon’s operating profit in 2018 was around €11 billion but between 2003 and 2014 the company did not pay tax on 75 per cent of its EU sales. This was made possible through a preliminary tax assessment agreed with the Luxembourg tax authorities. In the United States, the Amazon group even received a tax credit of $137 million.

Shifting burden

It is unsurprising companies take advantage of the peculiarities of tax systems for their aggressive tax planning, while formally adhering to ‘the letter of the law’. The principle of fair taxation of citizens and companies is thus a receding horizon. The graphs below show how the burden of taxation has shifted from corporations to labour in recent times.



Implicit tax rate on labour, 2006-18 (%) Source: European Commission, DG Taxation and Customs Union, based on Eurostat data



Nominal and effective corporate tax rates (%) Source: European Commission, DG Taxation and Customs Union, based on Eurostat data

As a result, economic disparities between and within member states are widening, fuelled by the Covid-19 pandemic. In its Action Plan for Fair and Simple Taxation to Support the Recovery Strategy, the European Commission affirms that tax fraud and evasion pose a threat to public finances and that member states 'today more than ever need secure tax revenues to invest in the people and businesses that need them most'.

This is however tantamount to conceding that EU packages of measures, such as the directive to combat tax avoidance, have remained largely ineffective. Indeed the loss of revenue by member states due to international tax evasion was estimated in 2016 at €46 billion for income, capital-gains, wealth and inheritance tax, and in 2017 at €137 billion for value-added tax. In addition to tax-avoidance offers, tax competition is taking place among member states for company settlements with regard to corporate-tax rates: these range from 9 per cent in Hungary to 34.4 per cent in France.

Real solution

With fair burden-sharing thus undermined and fair competition frustrated, 74 per cent of EU citizens believe urgent action must be taken against tax avoidance and evasion. However, the European Commission's ambitious agenda to tackle tax avoidance with the help of state-aid law, opening proceedings against Apple, Google, Fiat Finance and others, often fails because of insufficient evidence. The procedural route is not a promising option—a real solution can only be found through joint, European and global, regulatory efforts.

Is anything new and revolutionary possible within the framework of the Treaty on the Functioning of the EU? Article 113 provides for unanimity in the Council of the EU for the harmonisation of indirect taxes. This is probably one reason why there exists only one harmonised minimum tax rate in the EU—for VAT—and this dates back to 1993. The pandemic and empty state coffers could set the ball rolling again for reform.

The tax legislation of the last century is based on the principle that profits are taxed at the place of value creation, starting from the physical presence of a company. This model is being undermined by globally operating corporations, through profit shifting within the corporate structure. Digital business models, which are largely based on intangible assets, are currently taxed differently or not at all. The commission presented two legislative drafts for the taxation of the digital economy as early as 2018.

Digital taxation

The first initiative concerns the taxation of digital companies. It aims to harmonise tax rules for companies with a significant digital presence in the internal market. Profits should be registered and taxed where interactions between companies and users take place via digital channels. In addition, the draft directive on the Common Consolidated Corporate Tax Base is supposed to be extended to include a tax connection point for digital business activities.

This would be a first step towards an EU-wide, harmonised approach to recording tax incidents. Profits are allocated to those member states in which subsidiaries are located or in which a digital presence is established.

The second proposal is for a transitional tax of 3 per cent of turnover for the provision of digital services by multinational companies. It is estimated this 'digital tax' could generate revenues of €5 billion per year.

These proposals by the commission were rejected by the council in 2019. Some member states—Austria, France, Italy, Spain and the United Kingdom—introduced their own digital taxes. Germany decided against it because of fears of US tariffs, for example against the German automotive industry, as a retaliatory measure. This France has already experienced: due digital tax prepayments were suspended until the end of 2020, after the US had announced punitive tariffs.

European ambition

Does fair corporate taxation inevitably lead to a trade war? A global agreement via the Organisation for Economic Co-operation and Development would certainly be desirable. Such efforts must not however prevent the EU continuing on the path of harmonisation. The economy commissioner, Paolo Gentiloni, is keen to sustain the European ambition: in the absence of agreement at OECD level in 2020, he announced a push for the taxation of digital companies in the first half of 2021. The tax is intended to be paid primarily by large US technology groups, such as Amazon and Google, but also by new market participants such as the Chinese groups Tencent and Alibaba. The French finance minister, Bruno Le Maire, has explicitly supported this initiative.

From a trade union perspective, a common European approach is essential to achieve a fair distribution of the tax burden and sustainable public finances for upward social and economic convergence. If this cannot be achieved unanimously, the instrument of enhanced co-operation among ambitious member states remains one way out of the blockage. Another would be a framework directive which defined common standards only for those countries that wanted to introduce the digital tax and the minimum tax rate domestically.

Susanne Wixforth is head of unit in the Europe and International Department of the German Trade Union Confederation (DGB). She was formerly senior legal and economic adviser on European affairs in the Austrian Chamber of Labour (AK Vienna).

8

THE FINANCIAL-TRANSACTIONS TAX WE NEED IN THE AGE OF CORONAVIRUS

RICHARD MURPHY

There are reasons for saying now is not a good time to discuss tax. In a great many countries demand is already weak and most taxes reduce demand. Increasing them in that case would reduce economic activity and so increase unemployment and corporate failures, favouring recession rather than recovery.

That, though, is precisely why we need to think about a new role for financial-transactions taxes (FTT). It may just be that this is the tax which, in contrast to all others, managing the coronavirus crisis requires.

All governments must currently run deficits to support their economies and this will remain so for a long time. Meanwhile, interest rates have ceased to be a tool for economic management: when they are already close to zero they cease to have an impact on behaviour. Both concerns however provides reason why we might need an FTT.

Revenue-raising instruments

FTTs have traditionally been designed as very specific taxes on a very narrow range of financial transactions, including trades in financial commodities and currencies. The rates proposed have often been small. This has been because—oddly given the political perspective of many of those proposing them—they have been seen as revenue-raising instruments and not as Pigovian taxes designed to change behaviour significantly.

Pigovian taxes are placed on products, such as alcohol and tobacco, which generate 'negative externalities' (in those examples for public health). They are primarily intended to reduce demand, rather than to raise revenue—even if they do that too. But it would seem that the proposed social use of FTT revenues has been the primary purpose of these taxes in the eyes of their proponents, which implies that their rates and impacts must be limited. The uncomfortable truth which modern monetary theory has exposed—that tax revenue is not a precondition for social spending to take place—has not helped their cause.

The FTT we now need is very different. Precisely because monetary policy has ceased to be effective, because the use of tax in conventional fiscal policies is an extremely blunt instrument and because rapid fiscal intervention in any economy is now essential to control demand, employment and inflation—in an environment where there will be persistent government deficits—new instruments of fiscal management are required. An FTT can fulfil this role.

Financial flows

This would however be an FTT of a type previously very rarely used. It would be imposed on financial flows through *all* bank accounts in an economy, without exception. The charge would be on both debits and credits, with the deliberate intent of reducing scope for evasion. And the tax should be designed to be significant in overall amount, acting as a possible replacement for other taxes such as payroll and social-security charges, for example, which are such an impediment to employment now.

This FTT should be significantly progressive. As the flows through the bank accounts under the control of a person increased, so would the charge. Those with average or low incomes would expect very low rates to be levied upon them. It would even be simple to make the rate negative for some, as a means of delivering income support. In contrast, those with very large financial flows would expect significant charges.

It would be appropriate for any individual to link all the accounts they had under common control for the purposes of their charge being assessed. So, for example, a person should not have to pay an FTT charge when making a payment to their mortgage account, transferring savings or paying a credit-card bill. Instead, the charge should arise when real interaction with third parties took place.

Deciding how a person and their household were related might be an issue for this purpose; equally it could be an instrument for delivering social support. Transfers into and out of the country, even to related accounts, would however always be charged. Put all this together and this would become an effective and progressive tax on consumption.

The charge would also need to be applied to business accounts, and again some progressivity could be appropriate: support for smaller businesses could be implicit in rates charged. And businesses should not object, especially if they were relieved of some of their social-security costs. The issue of cash usage would have to be considered: it would be a legal necessity to require that cash sales and purchases were declared for tax purposes, to prevent abuse.

This one aspect apart, administratively this tax would be easy: all the software to create the charge should already exist, even if some accounts are linked and even if multiple banks are involved. Since the charge would be a simple percentage of flows into and out of accounts, the calculation would be simple, as would annual aggregation to avoid unfairness if the charge in any month were excessive on a 'pay as you go' basis.

Fiscal control

This would be a progressive consumption tax—which value-added tax is not—and it would extend the tax base to financial services and transactions, which are the preserve of the wealthiest and beyond the reach of VAT. It could, therefore, be a significant tool for tackling income and wealth inequality.

But the most important element of this tax might well be the opportunity it would provide for fiscal control. It could be finessed to promote or restrain demand very rapidly, without requiring anything more than changing the rates in a relatively small number of banks' charging algorithms.

So if there were, for example, a desire to provide an immediate stimulus, rates could be reduced at short notice. Most especially, those rate changes could be targeted at particular income groups—even rendered negative for some, if desired.

Equally, if there were a need to target inflation, then FTT rates could be quickly increased to dampen demand. This is important, particularly to proponents of modern monetary theory, since it is often claimed taxes cannot be used for this purpose.

Finally, the tax could still be used to control excesses in the financial-services sector, although special rates might be required. The Spahn variation on such a tax, as it was originally recommended by James Tobin in the 1970s, has automatic stabilisers built in—increasing rates automatically in the event of financial crisis in a way that increases the costs of transactions, so as to calm markets in panicked financial situations. The rate increase would induce calm precisely when that might be most required.

I see little point now in promoting for its own sake an FTT of the type proposed over the last five decades, when neither the economy nor economic understanding demands it. In contrast, an FTT that promotes employment, reduces inequality, can be used to deliver income support and enhances fiscal management is a tax for this moment. It is a genuinely 21stcentury tax, which is needed now and in favour of which a coalition of the willing should be created.

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9

AN EFFECTIVE CORPORATION-TAX SYSTEM FOR THE EU

PAUL SWEENEY

The European social contract is broken. The largest companies are no longer contributing adequately to the provision of the public services and infrastructure they use. If the European project and single market are to survive and thrive, there has to be an effective EU taxation system. The small amounts paid in tax by some of the most profitable companies in the world are undermining citizens' belief in government, in politicians and in Europe.

The good news is that politicians are aware of these facts and are doing their best to construct a working tax system. Their best is however not yet good enough.

The European Union has made feasible tax-reform proposals and the Organisation for Economic Co-operation and Development has developed corporate-tax reforms for the world, through its 'base-erosion and profit-shifting' process. Both are making progress but this is far too slow in terms of agreement among states. Europe needs fair taxation of companies now, when revenue is so urgently needed.

Political agreement

Corporate-tax reform will not be easy, as several challenges can be identified. But only two relate to the design of reforms: defining the base on which to tax companies and dealing with profit-shifting by multinationals (MNCs), particularly on intangibles. The others come down to securing political agreement.

Taxation is a member-state competence and unanimity is currently required for EU action. Yet agreement is unlikely among all 27 member states because a few, such as Ireland, favour ‘tax competition’—in reality, tax *wars*—among democratic states to attract investment.

These tax wars have led to a fall in average nominal corporation-tax rates, from 35 per cent in 1995 to under 20 per cent today, and they are still falling. Even more importantly, *effective* tax rates are near zero for some top MNCs.

Europe has a history of defending secrecy and ‘commercial confidentiality’ for companies, the rich, despots, criminals and money-launderers. The EU has also been the location for wars over other taxes—with states depressing income taxes, social charges and/or capital-gains taxes—which are not even being addressed, though all taxes are inter-related.

Iterative solution

The base on which corporation tax is calculated—what is taxed and what is deductible—would be contested in any state but especially in a union. The solution will be an iterative one after debate but certain issues need to be addressed. What is deemed tax-deductible was once quite simple but the tax wars by states, in competitive pursuit of foreign investment, have led to a great growth in tax breaks (on research, patents and so on) which has undermined the base.

MNCs trade internally without market prices and can legitimately attribute prices. In a globalised economy this enables profit-shifting to low- or no-tax states, particularly for service and digital companies. It is difficult to police but co-operation among member states in the single market could contain it.

It is not the rate of tax which is the issue but the actual tax paid. The EU should move from seeking 'harmonised' tax rates to co-ordinated rates within bands—say between 15 and 25 per cent. This would allow peripheral and poorer countries to set lower nominal rates if they wished. What is needed is to close gaps between nominal and effective rates and eliminate tax breaks.

A single market will not work effectively if one of 27 states can hold a veto on reform of the taxation of companies. The solution is some kind of majority or agreement by the outliers: Ireland, the Netherlands and Luxembourg.

The base, deductions, rates, intangibles and so on can be agreed by the experts, provided they are given permission to do so by political leaders in the member states. Progress on tax at the G20 in November should spur EU action.

Aggressive avoidance

Accounting is important in helping businesses to thrive. But by reducing tax revenue for vital public services, aggressive tax avoidance has turned ‘tax professionals’—among the highest-paid individuals in Europe, remunerated by the beneficiaries of low or no taxes—into value subtractors, taking from welfare rather than adding to it.

Yet they determine the debate on taxation in many states, excessively influencing policy at many levels with their specialist knowledge, shrouding policy-makers with complexity. The Big Four accountancy and top legal firms also have their professional bodies and taxation institutes to influence opinion, not only via the media and universities but extending to top officials in governments’ finance departments.

The anti-tax lobby has however been too demanding, with corporate taxation reduced to almost zero. It has sparked a fierce reaction from the public which has changed the debate —finally inspiring action.

The EU is not moving quickly or effectively enough, though, in terms of openness and publication of country-by-country accounts. The black economy is almost 20 per cent of European gross domestic product.

Tax agency

Europe should establish a well-funded European tax agency, ‘Eurotax’, with wide powers of investigation into tax evasion and avoidance by wealthy individuals, companies and criminals. Eurotax would implement tax policy, including the co-ordination of tax assessments and collection. With a single market, the EU needs one tax body to oversee taxation in this globalised world.

The agency would be staffed by experts seconded from each member state, to maximise expertise, co-ordination and co-operation. Eurotax could assist the tax authorities of deficient member states, showing them the latest methodologies in assessments and collection, ensuring no weak links within the union.

The EU must address the need for all 27 states to collaborate on *all* taxes over time to end tax wars. The process, difficult though it is, is mainly political and must be brought to a conclusion within two to three years.

Paul Sweeney was chief economist with the Irish Congress of Trade Unions for a decade.